“Our Way is with John Bull”: The Irony of Canadian Imperial
Economic Diplomacy, 1930-1933

by

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Abstract

In response to the Great Depression and an increasingly protectionist United States, both major political parties in Canada in 1930 declared their intentions to switch trade from the United States to the British Empire. A slogan carried in the *Globe* in the 1930 election campaign was “Let Uncle Sam Go His Own Way – Our Way is With John Bull.” The Conservatives, led by the reputed anglophile, Richard Bedford Bennett won the election. The centrepiece of his Empire economic strategy was an Imperial Economic Conference hosted in Ottawa in the summer of 1932. Ironically, however, within six months of that Conference, Bennett was seeking a trade agreement with the United States as well as the means to conduct an independent monetary policy. To see how such ironies arise in foreign economic policy, this thesis examines Canadian experience in the 1930-1933 period, drawing upon international relations theoretical literature. As predicted by realist theory, far from exhibiting cooperative behaviour, the governments of both Canada and Britain attempted to maximize their own gains from a trade deal. The Ottawa Conference thus marked a further weakening of Empire bonds.

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Introduction

The Ironic Decade

Some years ago, James Eayrs took W.H. Auden's phrase "a low, dishonest decade" in the title of his survey of Canada's external policy in the 1930s.¹ A survey of Canada's foreign economic policy in that period could perhaps be more accurately entitled "An Ironic Decade," in that so often the outcome of policies were different from or even contrary to the declared intent of the policy. It was a decade that began with an election in which both major political parties competed with each other in declaring their intentions to build a closer economic relationship with the British Empire² and to reduce Canada's reliance on ties to the United States. For several days leading up to the election the Liberal-supporting *Globe* ran a banner front-page headline declaring, "Let Uncle Sam Go His Own Way – Our Way is With John Bull."³ The 1930 election was won by the Conservative Party, led by the reputed anglophile, Richard Bedford Bennett. The centrepiece of his Empire economic strategy was to be an Imperial Economic Conference hosted in Ottawa in the summer of 1932. Yet, within six months of that Conference, Bennett publicly committed to seeking a trade agreement with the United States. By the end of the decade Canada had signed two trade-liberalizing agreements with the United States.⁴ Nor was trade the only ironic aspect of Canadian economic policy of the time. It was a time when, as the

¹ James Eayrs, "'A Low, Dishonest Decade': Aspects of Canadian External Policy, 1931-1939," in Hugh L. Keenleyside et al. *The Growth of Canadian Policies in External Affairs* (Durham, North Carolina: Duke University Press, 1960), 59-80. The phrase is, of course, from Auden's poem "September 1, 1939" – "As the clever hopes expire/Of a low dishonest decade," *The Collected Poetry of W.H. Auden* (New York: Random House, 1945), 57.

² The terminology used to refer to the collectivity that included Great Britain, the self-governing dominions, such as Canada, the colonies and dependent territories, and territories of intermediate status, such as India, was constantly changing in the inter-war period. Officially the dominions were part of a commonwealth. The term British Empire, however, continued to be used, especially in every-day parlance, to refer to the collectivity. See Ian M. Drummond, *British Economic Policy and the Empire, 1919-1939* (London: George Allen and Unwin Ltd. 1972), 9. In this thesis the terms Commonwealth and Empire will be used interchangeably.

³ See *Globe*, 14-22 July 1930, 1.

⁴ These were the trade agreements of 1935 and 1938. See Ina M. Drummond and Norman Hillmer, *Negotiating Freer Trade: The United Kingdom, the United States, Canada and the Trade Agreements of 1938* (Waterloo, Ont.: Wilfrid Laurier University Press, 1989).

international gold standard was breaking down, Prime Minister Bennett would proclaim Canada's determination to adhere to it – not realizing that Canada had already effectively abandoned it. Under Prime Minister Bennett, the supposedly ardent imperialist and adherent to the gold standard, Canada would acquire a central bank, the instrument it needed to conduct independent monetary policy.

To see how such ironies arise in foreign economic policy, this thesis examines the Canadian experience in the 1930-1933 period, an experience that greatly shaped Canadian policy for the rest of the decade and beyond. In looking at the sources of these ironies, this thesis will draw upon several strains of the international relations theoretical literature. International relations theory as an academic discipline originated in the period between the two World Wars – Alfred Zimmern became the first professor of international relations anywhere in the world in 1919, when he was appointed to the Woodrow Wilson Chair at the University College of Wales, Aberystwyth.⁵ Ironies, of course, abound in the development of international relations theory as an academic discipline. Academic interest in international relations began with the hope, arising out of the horrors of the First World War, that a peaceful world order could be constructed if human reason was applied to the study of the causes of war and to the design of an international system based not on the “balance of power” but rather on collective security and the rule of law. And since war arose at least partly out of economic causes, the search for a more just economic order was part of the quest for a more peaceful world. This came to be called the “idealist” or “utopian” vision of international relations.⁶

⁵ Paul Rich, “Alfred Zimmern's Cautious Idealism: The League of Nations, International Education, and the Commonwealth,” in Peter Wilson and David Long (eds.), *Thinkers of the Twenty-Years' Crisis: Inter-war Idealism Reassessed* (Oxford, New York: Clarendon Press, Oxford University Press, 1995), 79.

⁶ Peter Wilson, “Introduction: *The Twenty Years' Crisis* and the Category of 'Idealism' in International Relations,” in Wilson and Long, 1-24.

On the political-military side of international relations, new procedures and mechanisms were deemed necessary to the establishment of this more just, peaceful order. On the economic side, however, success was thought to lie in the re-establishment of what was sometimes seen as the golden age of the pre-war order, and especially of the international gold standard. Thus, when studying the economic aspects of international relations in the interwar period, “It is,” according to Robert Keohane and Joseph Nye, “difficult to understand later events without realizing that the minds of officials in the late 1920s and even thereafter were cluttered with images of the prewar system, which many saw as an ideal to which the world should return.”⁷

The attempt to construct a new international order led to a series of international meetings and conferences. The first decade after the Great War thus became the age of the international conference. On the political-security side, the League of Nations was established, albeit without the participation of the United States. Conferences were held in Washington in 1922, London in 1930 and in Geneva in 1932-1933 all with the intention of reducing arms. Pacts settling borders and outlawing war as a means of dispute settlement were signed in 1925 (Locarno Treaties) and 1928 (the Kellogg-Briand Pact). On the economic side, conferences were held in Brussels in 1920, in Genoa in 1922 and in Geneva in 1927, all in the attempt to re-establish a monetary and trade system that would support peace. The Dawes Plan in 1924, the Young Plan in 1930 and the Lausanne Agreement of 1932 appeared to solve the difficulties arising out of German reparations and inter-Allied war debts. With the return of Britain to the gold standard in 1925, and of France and Germany in 1928, the issue of the world monetary regime appeared to have been settled. Thus, by the mid-1920s, prosperity appeared to be returning to Europe and to the

⁷ Robert O. Keohane and Joseph S. Nye, *Power and Interdependence* Fourth Edition (Boston: Longman, (1977) 2012), 58.

world economy, largely underwritten by American lending.⁸ Despite the protestations in favour of and attempts to produce a cooperative international economic system, the interwar years have been called “the most conflictual in modern economic history.”⁹ The economic conflicts were of course a prelude to the military conflict that ended the decade.

It is surely ironic that E.H. Carr’s *The Twenty Years’ Crisis, 1919-1939*, now considered one of the foundational texts of international relations theory, was written to explain the failure of the idealist or, to use Carr’s term, utopian project that was at the origin of the discipline.¹⁰ Carr and many other historians of the period posed the question of why the idealist or utopian vision failed – why, despite the professed determination of statesmen, was the construction of a just and peaceful international order not possible? Reflecting on the economic conferences of the time, Carr would write, “we find in the modern period an extraordinary divergence between the theories of economic experts and the practice of those responsible for economic policies of their respective countries.”¹¹ For Carr and his intellectual descendants, such as Kenneth Waltz and John Mearsheimer,¹² the answer to this puzzle lies in the structure of the international system and the role of power in that system. Carr is considered the founder of the “realist” school of international relations. For reasons that will be discussed in more detail in the next chapter,

⁸ This was, of course, not true everywhere. Britain and Japan suffered lacklustre growth largely because of their attempts to establish too high a parity for their currencies with gold. Charles P. Kindleberger, *The World in Depression, 1929-1939 40th Anniversary Edition* (Berkeley and Los Angeles: University of California Press, (1973) 2013), 58.

⁹ Beth Simmons, *Who Adjusts? Domestic Sources of Economic Policy during the Interwar Years* (Princeton: Princeton University Press, 1994), 275 and 3.

¹⁰ Edward Hallett Carr, *The Twenty Years’ Crisis, 1919-1939: An Introduction to the Study of International Relations* (New York: Perennial, (1939) 2001). Burchill, 1. In a further irony, E.H. Carr, the founder of realist theory wrote the book while occupying the Woodrow Wilson Chair in International Relations at Aberystwyth, the same chair occupied by the idealist Alfred Zimmern.

¹¹ Carr, 55.

¹² Kenneth Waltz, *Man, the State and War: A Theoretical Analysis* (New York: Columbia University Press, 1959 (2001)) and John Mearsheimer, “The False Promise of International Institutions,” *International Security* Vol. 19 No. 3 (Winter, 1994-1995), 5-49.

Mearsheimer and Waltz are often referred to as “neo-realists” or “structural realists.” For realists, the variable that intervenes between the intentions of statesmen and the outcome is the structure of the international system, and in particular its anarchical nature. States depend for their survival on the accumulation of sufficient power. International relations are thus a competition. Participation in international institutions or cooperative efforts is done with calculations of self-interest foremost in mind. Indeed, powerful states will seek to shape institutions to serve their interests.¹³ States participating in international institutions must always bear in mind the possibility of cheating and the importance of power *relative* to potential rivals.

Critics of realist theory will sometimes argue that economics offers an area where international cooperation is possible.¹⁴ Economic theorists since at least the time of Adam Smith and David Ricardo have shown that trade benefits both parties to the trade. Realists have several responses. Carr argued that economic power was inseparable from military power, so that the competition for military power necessarily entailed a competition for economic power. Others, such as John Mearsheimer, Albert O. Hirschman, and Robert Gilpin argue that while trade may benefit both parties, it may not benefit both parties equally.¹⁵ Thus there can be a competition for relative economic gains. As Peter Gourevitch shows, the importance of relative economic gains can become particularly intense during periods of hard economic times.¹⁶ Thus, when the Great Depression struck at the end of the 1920s, governments nearly everywhere resorted to *saue qui peut* protectionism and economic nationalism. States did for a time in the latter half of

¹³ Mearsheimer, 5-49.

¹⁴ Robert O. Keohane (ed.) *Neo-realism and Its Critics* (New York: Columbia University Press, 1986).

¹⁵ Mearsheimer, “False Promise;” Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley and Los Angeles: University of California Press, (1945) 1969); Robert Gilpin, *Global Political Economy: Understanding the International Economic Order* (Princeton and Oxford: Princeton University Press, 2001).

¹⁶ Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca and London: Cornell University Press, 1986).

the 1920s succeed in restoring the international gold standard. It also, however, was swept away by the Great Depression.

A criticism that is sometimes made of structural theories is that they do not account for differentiation among states – states, according to the metaphor sometimes used, act as billiard balls. They are undifferentiated actors whose actions are determined by forces in the international system. Kenneth Waltz essentially accepts the criticism, and differentiates between a theory of international relations or politics and a theory of foreign policy.¹⁷ The role of international relations theory is to show how the interaction of states generates a structure that influences state behaviour. It explains why states similarly placed act in similar ways despite internal differences. Foreign policy theory, on the other hand, seeks to explain why states similarly placed in a system behave in different ways. Critics of structuralist theory, however, argue that it misses a great deal of what is interesting in the interaction of states.

One strain of international relations literature, for example, takes issue with the tendency of structural theories to ignore the influence of individual leaders. Daniel Byman and Kenneth Pollack accuse structural approaches of contributing to “one of the most pernicious and dangerous myths to the study of international relations: the cult of inevitability.”¹⁸ Individuals, they argue, can exercise a decisive influence on international events. Depending on the circumstances, ideas and beliefs of an individual leader, states’ responses to external events can differ greatly. Canadian leaders were forced into action in the early 1930s primarily by policy shifts in the United States, but, this thesis will argue, the personality and beliefs of R.B. Bennett shaped a response that was quite different from that planned by his rival, Mackenzie King.

¹⁷ Kenneth Waltz, “International Politics is Not Foreign Policy,” *Security Studies*, Vol. 6 No. 1 (Autumn, 1996), 54-57.

¹⁸ Daniel L. Byman and Kenneth M. Pollack, “Let Us Now Praise Great Men: Bringing the Statesman Back In,” *International Security* Vol. 25 No. 4 (Spring, 2001), 145.

One of the challenges leaders face, particularly in a democracy, is managing foreign policy relationships in such a manner as to satisfy domestic interests. Robert Putnam conceptualizes this problem as a “two-level game.”¹⁹ Statesmen’s actions are constrained on one level by what other states will accept and on a second level by what domestic constituents will ratify. As shall be seen in Chapter IV, domestic pressure groups were very present and very active before and during the Imperial Economic Conference of 1932, and significantly influenced the outcome.

Another criticism of structural theories is that they assign very little agency to smaller or less powerful states in the system. The “received wisdom” in international relations studies is that small states are more constrained in the behaviour by the structure of the international system.²⁰ They are more acted upon than acting. There is, however, a strain of international relations literature, however, that, while admitting that smaller states may in many situations be more constrained than larger states, they are not without the ability to shape their responses to events. One way they can do this is through shaping their relations with larger powers. In this thesis, it will be shown that Canada attempted to secure its economic security by changing the nature of its relationships with the United States and the United Kingdom. It responded to a rebuff from the United States in 1930 by attempting to draw closer to the United Kingdom and the British Empire. The realization, by the end of 1932, that a closer economic relationship with the British Empire could not compensate for a more distant relationship with the United States prompted attempts to rekindle that relationship. In 1932 and again in 1933, changes in

¹⁹ Robert D. Putnam, “Diplomacy and Domestic Politics: The Logic of Two-Level Games,” *International Organization* Vol. 2 No. 3 (Summer, 1988), 427-460. Also see Andrew Moravcsik, “Introduction: Integrating International and Domestic Theories of International Bargaining,” in Peter B. Evans, Harold K. Jacobson and Robert D. Putnam (eds.), *Double-Edged Diplomacy: International Bargaining and Domestic Politics* (Berkeley: University of California Press, 1993), 3-42.

²⁰ Miriam Fendus Elman, “The Foreign Policies of Small States: Challenging Neo-Realism in its Own Backyard,” *British Journal of Political Science* Vol. 25 No. 2 (April, 1985), 172.

government in a major power led Canadian leaders to structure their initiatives to reflect the altered the international environment.

Chapter I comprises two parts. The first part will review the international relations and foreign policy literature that will provide a background for the subsequent discussion of Canada's foreign economic policy in the early 1930s. It will enlarge on some of the themes introduced here. The underlying question it will seek to shed light upon is why was it so difficult to achieve economic cooperation despite the professed willingness of statesmen to cooperate. The answer is, for reasons readily understandable to neo-realists, that it is not straightforward to achieve cooperation even in the best of times. Unlike the period before the war, the economic regime to which statesmen were trying to return, there was no international leader that could impart stability to the system. In the harsh economic times accompanying the Great Depression, the strong temptation of governments almost everywhere was to try to maximize the short-term gains for their citizens, if necessary at the cost the citizens of foreign countries. The second part of the chapter reviews literature on Canadian foreign economic policy in the early 1930s. Several themes stand out. The first is that by the early 1930s, Canada had acquired the means to conduct an independent foreign policy, although most Canadians were not terribly interested in foreign issues. To a large extent, foreign policy was economic policy. Secondly, the key relationships were with the United States and Britain -- Canada was in a unique situation in that it was linked historically with a declining power and geographically with the rising international power. Thirdly, the policy-making machinery, in both foreign and economic policy was very rudimentary.

Chapter II provides some background on the structure of the Canadian economy of the time. It will show that the economy was vulnerable in several important respects to

developments in the international economic environment and to changes in the policies of foreign governments. One key policy change in 1930 was the implementation of the Smoot-Hawley Tariff in the United States. This forced a change in Canada's trade orientation and led to relations with the British Empire becoming a major issue in the 1930 election. The issue was not whether to increase economic integration with the Empire, but rather how to do it. Mackenzie King's Liberals and R.B. Bennett's Conservatives offered contrasting approaches to Empire integration. Given the depth of the Depression that had alighted on Canada, Bennett's more nationalist approach was, in the view of Canadian voters at the time, the more compelling.

Chapter III begins with Bennett's first foray into Empire relations. While his vision proved compelling at home, at the London Imperial Conference of 1930 he ran head-on into the opposition of the Labour government of the day and in particular of its formidable Chancellor of the Exchequer, Phillip Snowden. Bennett, however, was to prove a forceful leader, refusing to abandon his vision. Although the 1930 Conference proved a check for him, events were subsequently to change in a way favourable to his vision. The international financial crisis of the summer of 1931 led Britain to abandon the gold standard. It also led to a change in government in Britain to one better disposed to Bennett's vision. The financial crisis, however, underscored the extent to which Canada's inability to conduct an independent monetary policy left it exposed to events in the international economy and international financial markets.

Chapter IV then looks at the Imperial Economic Conference that was held in Ottawa in the summer of 1932. Supporters of Bennett viewed the Ottawa Conference as a success and the first step toward a more closely integrated economic Empire. The more prevalent view was that it did not succeed in this aim, and thus was a missed opportunity. The blame for this failure is often laid at the door of Prime Minister Bennett, whose difficult personality alienated

representatives of a British Government well-disposed to his imperial vision. The Chapter will show that British and Canadian visions of Empire were in fact largely incompatible. The Conference saw the negotiation of agreements which influenced the pattern of Canadian trade in the immediate aftermath. As was quickly apparent, however, the growth in trade with Britain could not replace trade lost with the United States. The Conference did see a discussion of monetary policy which contributed to the growing debate about monetary policy in Canada. This debate was to lead to the creation of the Bank of Canada in 1934.

Chapter V briefly outlines the turn of the Bennett government toward the United States. By early 1933, it was clear to Bennett that the trade agreements negotiated at the Ottawa Conference would not by themselves have a major impact of the Depression. Bennett realized that new directions in economic policy would be necessary, including departures from the economic orthodoxy he had embraced up to that point. One of the new directions was a renewed effort to increase trade with the United States. His hopes in this direction were encouraged by the installation in March 1933 of a new administration in Washington. American diplomats found themselves surprised by how cooperative Bennett was. He was well on the way to negotiating a trade agreement with the United States when he lost the federal election in 1935. Mackenzie King had the good fortune to reap what Bennett had sown.

Chapter 1

Historiography: A Small Power in an Anarchic World

Introduction

The nightmare of the First World War gave rise to a determination to construct a new world order replacing whereby balance of power politics would be replaced by collective security and the rule of international law. In some of the international relations literature this vision is referred to as “the liberal project” or “the idealist vision.”¹ An important part of this new world order was to be an international economic regime based on open trade and investment and anchored on the international gold standard, a system like that which had produced monetary stability in the forty years before the First World War. It did not turn out that way. While statesmen of the interwar period spoke of the need and determination to cooperate in re-establishing this liberal economic regime, a series of economic conferences through the 1920s, and culminating in the 1933 London World Economic Conference, signally failed to produce it.² Studies of the breakdown of the post-First World War settlement are many. The discipline of international relations theory in many ways grew out of this failure. The “realist” school of international relations theory, established by E.H. Carr, and its intellectual descendant, the “neo-realist” or “structural realist” school, established by Kenneth Waltz, explain this failure by the nature of the international system.³ According to realist international theory, relations among states are such as to make cooperation difficult and tenuous at the best of times, and even more

¹ Scott Burchill, Andrew Linklater et al., *Theories of International Relations* Third Edition (Houndsmill, Basingstoke, Hampshire: Palgrave Macmillan, 2005), 1, John Mearsheimer, “E.H. Carr vs. Idealism: The Battle Rages On,” *International Relations* Vol. 19 No. 2 (2005), 140.

² Beth Simmons, *Who Adjusts? Domestic Sources of Economic Policy during the Interwar Years* (Princeton: Princeton University Press, 1994), 37-38 and E.H. Carr *The Twenty Years' Crisis, 1919-1939: An Introduction to the Study of International Relations* (New York: Perennial, (1939) 2001), 55-57 list the conferences and show how the reality of policy failed to measure up to the rhetoric of cooperation at the conferences.

³ Carr and Kenneth N. Waltz, *Man, the State and War: A Theoretical Analysis* (New York: Columbia University Press, 2001 (1959)). See also Jack Donnelly “Realism,” in Burchill, Linklater et al. Ch. 2 for an explication of “realism.”

so in hard times.⁴ Other authors have looked for the source of the failure of the post-war settlement in the structure and politics of individual countries⁵ or in the leadership of individual countries⁶ – in other words, in the determinants of the foreign policies of individual countries. The period between the wars was also the time when modern macroeconomics was born. The causes of and cures for the unparalleled economic catastrophe that was the Great Depression were the subjects of intense study, debate, and experimentation. The immediate policy reaction to the Depression, however, in country after country, was a “me first” or “beggar thy neighbour” resort to various forms of protectionism or economic nationalism.

This thesis examines the foreign economic policy of Canada in the 1930-1933 period. Canada at this time was in many ways a new player on the international scene. Only since the First World War did it have a diplomatic presence separate from that of Great Britain. Until the Statute of Westminster in 1931 its foreign policy was nominally determined by Britain. The resources it devoted to foreign policy were meagre. Moreover, opinion in Canada was divided as to how much of a foreign presence was desirable. In economic policy terms as well, policy-makers in Canada had few levers with which to work. Canada did not have a central bank, and the federal government’s principal fiscal tool was the tariff. The Canadian economy was dependent on trade to a greater extent than most other economies in the world. Although it was a major nation in terms of the volume of its trade, its ability to determine the rules of the

⁴ John J. Mearsheimer, “The False Promise of International Institutions,” *International Security* Vol. 19 No. 3 (Winter, 1994-1995), 5-49 and Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca: Cornell University Press, 1986).

⁵ Examples of this kind of study include Simmons and Peter Gourevitch *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca and London: Cornell University Press, 1986).

⁶ Examples include: Daniel L. Byman and Kenneth M. Pollack, “Let Us Now Praise Great Men: Bringing the Statesman Back In,” *International Security* Vol. 25 No. 4 (Spring, 2001), 107-146; Margaret G. Hermann et al., “Who Leads Matters: The Effects of Powerful Individuals,” *International Studies Review* Vol. 3 No. 2 (Summer, 2001), 83-131; and Ariel Roth *Leadership in International Relations: The Balance of Power and the Origins of World War II* (New York: Palgrave Macmillan, 2010).

international system was limited. It thus found itself to a considerable extent at the mercy of events and decisions made elsewhere. Richard Bedford Bennett would lead his Conservative Party to victory in 1930 in part owing to his promise to overcome the Depression afflicting Canada. Reflecting in 1933, he would say, "... we discovered, ... before very long that ten and a half million people were only a drop in the world bucket, and this depression was universal in extent, and what might overtake a situation that was local could not be applied to a situation that had become world-wide."⁷ Nevertheless, policy-makers in Canada did attempt to respond to the evolving international economic situation. In particular, they responded to the increase in protection in the United States by attempting to reinvigorate economic relations with the British Empire. This represented an attempt to reverse the direction of Canada's economic relations had been taking since the turn of the century and since the First World War in particular. This attempt culminated in the Imperial Economic Conference that was held in Ottawa in the summer of 1932. This effort did not succeed for long; the trend of growing interdependence with the American economy eventually reasserted itself, and as early as February 1933, Canada was seeking closer economic ties with the United States.

The 1930-1933 period, however, is still interesting to study both in terms of Canada's role in the international system and in terms of the influence the conferences had in Canada. As for Canada's role in the international system, it is striking how little influence "Empire sentiment" exercised in Canada's dealings with Britain in this period, despite its being led by a man reputed to be devoted to the Empire. The Canadian Government acted to secure its interests. To be sure, those interests were shaped and interpreted by various factors internal to Canada, including the

⁷ Richard B. Bennett, "Democracy on Trial," in *Canadian Problems as Seen by Twenty Outstanding Men of Canada: A Collection of Papers Read at the First Annual Liberal-Conservative Summer School Held at Newmarket* (Toronto: Oxford University Press, 1933), 21-22.

personal beliefs and leadership style of R.B. Bennett.⁸ In effect, however, Canada's behaviour was typical of a state acting in a world characterized by the realist or neo-realist relations theory of international relations. Canada's participation in the Imperial Economic Conference of 1932 is worth studying for the influence it had on Canada. Participation forced Canada to devote thought, sometimes for the first time, on how it should equip itself to conduct economic policy. For example, just as participation in the 1923 Imperial Conference was responsible for O.D. Skelton coming into government and subsequently reshaping the Department of External Affairs, so too did participation in the 1932 Imperial Economic Conference bring William Clifford Clark into government. He would subsequently reshape the Department of Finance and play a key role in the creation of the Bank of Canada.

This chapter reviews some of the key literature on international relations and international economic relations in the interwar period. If there is an overarching theme of the literature surveyed in this chapter, it is why and how international cooperation failed in spite of all the professions of its importance. Why could governments not come together on a common plan of action to address a crisis they all faced? What was Canada's role in this international failure? How did it act? What beliefs led the government of the day to act as it did? The chapter comprises two principal sections. The first surveys the literature on the theory of international relations and international political economy. It introduces and discusses some of the concepts from these disciplines that will be used to examine and explain Canadian behaviour in the Imperial and World Economic Conferences in subsequent chapters. The role of power, and especially economic power, has been a central concept in international relations theory and

⁸ Bennett was usually referred to as "R.B.," as opposed to Richard, by the press and associates. See, for example, Andrew D. MacLean, *R.B. Bennett: Prime Minister of Canada* (Toronto: Excelsior Publishing, 1935) or Rod K. Finlayson, *Life with R.B.: That Man Bennett*, unpublished memoir, Library and Archives Canada, Reel H1310.

has been invoked by realists as being the principal driver of international relations. A contending school of theory, sometimes referred to as the “liberal internationalist” or “complex interdependence” school, examines how international “regimes,” defined as “networks of rules, norms and procedures that regularize behavior and control its effects,” come into existence, change or disappear.⁹ More recently, theorists of the “constructivist” school have stressed the role of identity in determining the foreign policy of states. With the rise of constructivism, increased attention has been devoted to the role of ideas, and particularly the ideas and attitudes of leaders, in determining interests.¹⁰ International relations theory has tended to focus on the behaviour of major states in the international system, the “received wisdom” in the field being that the behaviour of small states is more constrained by the international system or situation.¹¹ Small states, however, are not entirely pawns, they have some freedom of action, or agency, and there is a literature on the role of small states in the international system. Given its pertinence to Canada’s situation in the early 1930s, this section will thus review some of this literature.

The second section reviews the principal literature bearing on the determination of Canada’s foreign economic policy in the 1930s. It looks first at the literature pertaining to Canada’s place within the international system in the 1930s. It will show that the international system for Canada consisted essentially of the United States and Great Britain and the sometimes fraught relationship between them. A second sub-section then looks at some of the factors within Canada that determined its foreign economic policy. A third subsection will review the literature on the key individuals determining Canadian foreign economic policy. First among

⁹ Robert O. Keohane and Joseph S. Nye, *Power and Interdependence, Fourth Edition* (New York: Longman, (1977) 2012), 16.

¹⁰ Christian Reus-Smit, “Constructivism,” in Burchill, Linklater et al., 188-212 and Kim Richard Nossal, Stephane Roussel and Stephan Paquin, *International Politics and Policy in Canada* (Toronto: Pearson, 2011), 10-11 and 117-118.

¹¹ Miriam Fendus Elman, “The Foreign Policies of Small States: Challenging Neo-Realism in its Own Backyard,” *British Journal of Political Science* Vol. 25 No. 2 (April, 1985), 172.

these is, of course, the Prime Minister during this period, R.B. Bennett. Also important is William Clifford Clark, the academic economist brought into government specifically to provide advice on monetary policy for the Imperial Economic Conference but who then became the long-serving Deputy Minister of Finance.

I. Nature of the International System: Why Was Cooperation So Rare?

a) Power, Economics and Regimes

E.H. Carr's *The Twenty-Years' Crisis, 1919-1939*, is considered one of the foundational texts in the field of international relations theory and, according to Peter Wilson, "probably the only undisputed classic" in the field.¹² Carr's book was an attack on the idealist or, to use his term, utopian approach to international relations that was prevalent in the inter-war period. There are numerous strains to this approach, but the essence of the idealist approach is that international peace would be secured by having nations adhere to international law and collective security.¹³ In Carr's view the liberal project failed because it did not take into account the role of power. Although Carr does not really define "power," it is obvious from his use of the term that he means the ability to compel others to accede to one's will or the ability to prevail in a conflict. Gordon Martel puts the issue more bluntly – "power determines who gets what, when, where and how."¹⁴ Power, Carr writes, is "the indispensable instrument of government" and "politics

¹² Scott Burchill and Andrew Linklater, "Introduction," in Burchill, Linklater et al., 1 and Peter Wilson, "Introduction: *The Twenty-Years' Crisis* and the Category of Idealism in International Relations," in David Long and Peter Wilson (eds.), *Thinkers of the Twenty-Years' Crisis: Inter-War Idealism Reassessed* (Oxford, New York: Clarendon Press, Oxford University Press, 1995), 1.

¹³ See David Long, "Conclusion: Inter-War Idealism, Liberal Internationalism, and Contemporary International Theory," in David Long and Peter Wilson, 302-328.

¹⁴ Quoted in Brian J.C. McKercher, *Transition of Power: Britain's Loss of Global Pre-eminence to the United States, 1930-1945* (Cambridge: Cambridge University Press, 1999), 2-3.

cannot be divorced from power.”¹⁵ Indeed, politics is “in one sense always power politics” in that the term political is only applied to issues where there is a conflict of power. In a state, where an issue has been settled, it is no longer considered political, but rather administrative. Similarly, in international relations, issues on which states have agreed to cooperate are considered “non-political” or “technical.” An issue is said to be “political” when it involves or is thought to involve the power of one state in relation to another.¹⁶ Carr’s book is taken by many to be the first statement of the “realist” school of international relations, has therefore been bound up closely with the study of power. John Mearsheimer regards Carr’s *Twenty Years’ Crisis* not as a statement of the theory of realism but rather a refutation of the idealist view of international relations that was prevalent at the time.¹⁷ In particular, Carr did not address two key issues that motivate most realist thinkers: first, why do states want power and second, how much power do they want?

The American political theorist Kenneth Waltz in *Man, the State and War* attempted to provide a more theoretically rigorous approach. The imperative of states to pursue power follows from the structure of the international system and in particular its anarchic nature. There is no higher authority to which one can appeal for justice. It follows from this that states pursue power not as an end, but as a means to an end – to provide for their own security. “Each state pursues its interests, however defined, in ways it judges best.”¹⁸ States will thus seek to accumulate enough power to feel secure. The Waltzian version of realism is thus sometimes referred to as “neo-realism” or “structural realism.” A crucial conclusion that follows from this model is that what matters to states is not *absolute* power, but *relative* power. To be secure, one

¹⁵ Carr, 107 and 97.

¹⁶ Ibid., 102.

¹⁷ Mearsheimer, “E.H. Carr vs. Idealism,” 140-141.

¹⁸ Waltz, 238.

must have not many weapons per se, but many weapons compared to any potential foreign aggressor. This focus on relative power is a distinguishing feature of the realist and neo-realist approach to international relations.¹⁹

Waltz distinguished between the study of “international relations” or “international politics” on the one hand and the study of “foreign policy” on the other.²⁰ The former seeks to explain the behaviour of states at the international and not the national level – why do states similarly placed in the international system behave similarly despite internal differences. The study of foreign policy, according to Waltz, seeks to explain why states similarly placed behave in different ways. Differences in behaviour result from differences in the internal composition of states. The study of foreign policy thus seeks to explain the performance of governments. This is a distinction that not everyone believes is useful. Indeed, Waltz himself says international political theory can explain states’ behaviour “only when external pressures dominate the disposition of states, which seldom happens.”²¹ Rather than becoming too caught up in this distinction, this thesis studies Canada’s foreign economic policy in the 1930-1933 period, upon which there were important influences emanating from the structure of the international system.

Economics occupied a central place in the idealist vision of a peaceful world. A just and cooperative economic order in which trade occurred relatively freely was thought to be an essential requirement for a peaceful world order.²² Firstly, from liberal thought emerging out of the Enlightenment, trade or commerce was believed to have a moderating effect on human behaviour. Liberals attributed the decline in war in the eighteenth and nineteenth centuries to the

¹⁹ See, for example, Mearsheimer, “False Promise,” 11 and Jeffrey W. Legro and Andrew Moravcsik, “Is Anybody Still a Realist?” *International Security* Vol. 24 No. 2 (Fall, 1999), 5-55.

²⁰ Kenneth Waltz, “International Politics is Not Foreign Policy,” *Security Studies* Vol. 6 No. 1 (Autumn, 1996), 54-57.

²¹ *Ibid.*, 57.

²² Donald Markwell, *John Maynard Keynes and International Relations: Economic Paths to War and Peace* (Oxford: Oxford University Press, 2006), 3-4.

growth of trade and commerce.²³ Woodrow Wilson said “the free constant unthreatened intercourse of nations is an essential part of the process of peace and development.”²⁴ By contrast, according to some liberal thought, protectionism tended to arise out of an alliance between business seeking profit and governments seeking power.²⁵ Secondly, and more fundamentally perhaps, trade, according to economic theory, is supposed to produce mutual advantage.²⁶ Under a system of free trade, commerce should make all parties better off. There would thus be the “harmony of interests” that supposedly underlay the liberal vision.²⁷ The development of closer economic relations would increase interdependence between nations which would make war increasingly costly between nations that calculate their interests rationally.²⁸

In the 1920s and early 1930s, there was a whole series of international conferences dedicated to restoring the international economy of the pre-war era. All called for cooperation, produced plans and made policy recommendations to this effect, and almost all were ignored in practice. As Carr observed, “... we find in the modern world an extraordinary divergence

²³ Burchill, “Liberalism,” in Burchill, Linklater et al., 62-63.

²⁴ Quoted in Emily Greene Balch, *Approaches to the Great Settlement* (New York: B.W. Huebsch, 1918), 155.

²⁵ Emily Greene Balch, “Economic Aspects of a New International Order” a pamphlet issued by the Fourth International Congress of Women, (Washington, 1924), 112. Balch was an influential economist and social reformer. Elsewhere in the same pamphlet she declared: “Mars is the God of the countries which fear interdependence and seek to become commercially self-sufficing. Mars is the God of passports and the God of tariffs and the God of concessions.” Ibid., 115.

²⁶ This belief traces its origin to Adam Smith and David Ricardo. See Paul Krugman and Maurice Obstfeld *International Economics: Theory and Policy* Sixth Edition (Boston: Addison Wesley, 2003), Ch. 2, for a derivation and explanation of Ricardo’s Law of Comparative Advantage.

²⁷ Carr, 42-43.

²⁸ Christopher Gelpi and Joseph M. Grieco, “Economic Interdependence, the Democratic State and the Liberal Peace,” in Edwin D. Mansfield and Brian M. Pollins (eds.), *Interdependence and International Conflict: New Perspectives on an Enduring Debate* (Ann Arbor: University of Michigan Press, 2003), 45.

between the theories of economic experts and the policies of those responsible for the economic policies of their respective countries.”²⁹

To realists and neo-realists this is not a surprising result. Two problems, Mearsheimer argues, tend to inhibit international cooperation: the incentive to cheat and the importance of relative gains.³⁰ To understand this, it is necessary to understand the difference between economic theory and international political economic theory.³¹ While it may be true that trade benefits both parties, it is not necessarily true that trade benefits both parties equally. Thus, while economics concerns itself with efficiency and the mutual gains from trade, international political economy is concerned with the distribution of those gains. While economics sees markets as isolated from politics, international political economy sees national power, values, and autonomy vitally affected by trade. While the dependence of one country on particular markets or products tends not to matter in economics, it matters a great deal in international political economy. Thus one of the main themes in international political economy is the tension between the interdependence of the international economy and the desire of individual states to maintain economic independence and political autonomy.³²

Interests must be harmonized artificially. Inside the individual state, the government fulfills this function. In the anarchical international economy, however, there is no agency that can do this.³³ This becomes the role of international regimes or institutions.³⁴ In the 1970s,

²⁹ Ibid., 55.

³⁰ Mearsheimer, “False Promise,” 8.

³¹ Robert Gilpin, *Global Political Economy: Understanding the International Economic Order* (Princeton and Oxford: Princeton University Press, 2001), Ch. 4. Gilpin in turn draws on Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley and Los Angeles: University of California Press, 1945), Chs. 1-2.

³² Gilpin, 80.

³³ Carr, 51.

³⁴ Mearsheimer “False Promise,” 8, footnote 13, uses “regimes” and “institutions” interchangeably. Gilpin, *Global Political Economy*, 83, sees regimes as rules and understandings as opposed to institutions, which are more formal organizations. This thesis follows Gilpin’s usage of the terms.

another school or approach to international relations, variously called “liberal internationalism” or “complex interdependence” emerged to challenge the claims of the realist and neo-realist schools. This approach was in many ways similar to the “idealist” tendency that Carr had attacked.³⁵ Although this school shared some of the same assumptions as the realist school, particularly that the international system is anarchical and thus states cared about power, there were a number of areas where its adherents differed. In particular, they saw other actors besides states as potentially significant actors. As well, they disagreed that security was always the overriding goal or that force was the dominant instrument of economic relations.³⁶ In a world where there was a considerable degree of interdependence, particularly economic interdependence, there would be large areas of interest, or “issue areas” to use the Keohane and Nye term,³⁷ where states would see it in their interests to cooperate. This cooperation can become sufficiently close that “regimes,” or expected modes of behaviour can be developed. Given sufficient time and cooperation these regimes can become formalized in “institutions.” If the regime has mechanisms to detect and deter cheating, then the cheating inhibition to international cooperation can be overcome.³⁸

The question Keohane and Nye set out to answer is then how and why regimes change. Major changes in international regimes are explained, in this account, by changes in the power structure either of the overall international system or of specific issue areas. Changes in economic processes and international organizations may also influence regime change.³⁹ The realist answer appeals to more primal instincts. In the final analysis, states decide whether to

³⁵ See David Long, 302-328.

³⁶ There are numerous statements of this model. See Scott Burchill, “Liberalism,” in Burchill Linklater et al. Ch. 3 for a general summary. Mearsheimer “False Promise” also presents a useful, if hostile, exposition. This section relies most heavily on Keohane and Nye.

³⁷ Keohane and Nye, 56.

³⁸ Mearsheimer, 17-18.

³⁹ Keohane and Nye, Ch. 3.

obey the rules of a regime or institution. States will operate through and obey the rules of regimes when those rules satisfy states' calculations of self-interest.⁴⁰

The regime that characterized the pre-First World War international economy, as outlined by Charles Kindleberger, is often referred to as the “hegemonic stability” model. According to this model, the smooth functioning of the international economy depended on the existence of a powerful actor, or hegemon, willing to adapt its behaviour to preserve the stability of the regime. The hegemon, according to this model, is:

... a country which is prepared, consciously or unconsciously, under some set of rules that it has internalized, to set standards of conduct for other countries, and to seek to get other countries to follow them, to take on an undue share of the burdens of the system, and in particular to take on its support in adversity by accepting its redundant commodities, maintaining a flow of investment capital and discounting its paper.⁴¹

In the forty years leading up to the First World War, Britain had performed this role. London was the financial capital of the world. The Bank of England acted to prevent financial disturbances from getting out of hand. And Britain's adherence to the international gold standard ensured the stability of the international monetary system. Coming out of the war, however, Britain was in a much weaker financial position and had been displaced as the leading international financial power by the United States. The logical outcome should have been for the United States to have taken up the role of hegemon and supported the international financial system during the crises of the early 1930s. The United States, however, lacked the experience and willingness to carry out this role. Thus, argues Kindleberger, “...part of the reason for the length, and most of the explanation for the depth of the world depression, was the inability of the British to continue their role of underwriter to the system and the reluctance of the United States

⁴⁰ Mearsheimer, 13.

⁴¹ Charles P. Kindleberger, *The World in Depression, 1929-1939* 40th Anniversary Edition (Berkeley and Los Angeles: University of California Press, (1973) 2013), 28.

to take it on until 1936.”⁴² The changed power structure in the world economy resulting from the war therefore made the pre-war economic regime untenable.

Gustav Cassel and others have gone even further in their criticism of American behaviour in the interwar period.⁴³ Not only was the United States guilty of the sin of omission in failing to provide backing for the international system, it and France were guilty of the sin of commission by acting in a manner that destabilized the international system. In particular, rather than “playing by the rules” of the gold standard and allowing inflation in their economies in the late 1920s and early 1930s, both countries chose to sterilize the gold inflows and thus hoard gold.

Eichengreen, Simmons and Temin have argued that the hegemonic stability model was not a satisfactory description of the pre-war economy.⁴⁴ Rather than relying on the actions of a single hegemon who provided stability as a “public good,” the pre-war system always relied more on the credibility of the link to gold as well as a willingness among the principal central banks to cooperate in support the gold system. The credibility of the peg to gold in turn depended on the willingness of the authorities of a country to make balance of payments equilibrium the overriding goal of monetary policy. A country experiencing a balance of payments deficit, and thus a loss of gold reserves, had to be prepared to undergo domestic deflation, with its attendant effects on employment and production, in order to restore competitiveness and the sustainability of the exchange rate peg. At the same time, the international trading system had to be sufficiently open to accommodate the increase in exports that the deficit country would be trying to achieve. Private capital flows in this regime would be

⁴² Ibid., 28.

⁴³ Gustav Cassel, *The Downfall of the Gold Standard* (London: Frank Cass & Co., 1936), 59-61.

⁴⁴ Barry Eichengreen, *Golden Fetters: The Gold Standard in the Great Depression, 1919-1939* (New York, Oxford: Oxford University Press, 1995), 5-12; Simmons, 276-282 and 287-288; and Peter Temin, *Lessons from the Great Depression: The Lionel Robbins Lectures for 1989* (Cambridge, Mass.: MIT Press, 1989), 35-37.

stabilizing. The restrictive monetary policy necessary to bring about the required deflation, coupled with the credibility of the exchange-rate peg, would attract private capital. At times loans from other central bank might be required to facilitate adjustment.

Even before the war, strains on this system were becoming evident. In the neo-realist model, security is the primary objective. Having ensured their own security, Waltz writes, only then can states pursue other goals, such as tranquility and profit.⁴⁵ For this reason neo-realists are sometimes said to consider security as “high politics,” while economics and other matters are “low politics.”⁴⁶ The expansion of the voting franchise and the rise of mass parties, however, meant that authorities could not afford to consider the economic health of the country as a secondary matter. Whereas the goal of power/security would still be the primary goal in times of danger, the goal of securing or increasing the standard of living of its citizens would become a goal in ordinary times. In practical terms, “low politics” became “high politics.” The ability of governments to produce prosperity became critical to their survival. Thus, for example, Percy Corbett in his discussion of foreign policy at the 1933 Liberal policy conference in Port Hope lists security *and* prosperity as the “final purpose of foreign policy.”⁴⁷ In times of economic distress, it would become an even more urgent goal.

These social and political changes had serious implications for foreign economic policy. Governments could no longer be trusted to make balance of payments equilibrium the primary goal of macroeconomic policy. Moreover, states became more willing to use protection to limit the increase in exports from deficit countries. As these changes reduced the credibility of the

⁴⁵ Kenneth Waltz, Reflections on the Theory of International Politics: A Response to My Critics,” in Robert O. Keohane (ed.), *Neorealism and Its Critics* (New York: Columbia University Press, 1986), 334.

⁴⁶ Keohane and Nye, 19 and Nossal, Roussel and Paquin, 4.

⁴⁷ Percy E. Corbett, “A Foreign Policy for Canada,” in Vincent Massey (ed.), *The Liberal Way: A Record of Opinion on Canadian Problems as Expressed and Discussed at the First Liberal Summer Conference, Port Hope, September 1933* (Toronto and Vancouver: J.M. Dent & Sons, 1933), 129.

exchange-rate peg, private capital flows tended to become destabilizing. Private investors, fearing an eventual devaluation of the exchange rate, would tend to flee from deficit countries. The fear of foreign exchange losses also affected the willingness of central banks to cooperate.

The economic dislocation arising from First World War greatly intensified these pressures. The gold standard was suspended in most countries during the war, and wartime and post-war inflation made re-establishing the gold standard difficult. Reparations and Allied war debts to the United States aggravated balance of payments difficulties in several countries. Pressures on the trading system increased.⁴⁸ The United States soon after the war increased tariffs to protect domestic industries – the Fordney-McCumber tariff. Thus, according to this view changed social and political conditions by the time of the interwar period had made the pre-war economic regime unsustainable.

The role of economic power in the international system is a matter of some debate. Economic power in the Carr's realist model is meaningful only as it contributes to overall military power. One of the most significant outcomes of the First World War, according to Carr, was the reuniting of economics and politics in both domestic and foreign policy.⁴⁹ The war demonstrated that economic power was a vital component of a state's overall military capability. Thus the crippling of an enemy's economy became an essential war aim. It followed that attaining self-sufficiency or autarky at least in strategic commodities became an important state goal. The presence of a great many new states as a result of the break-up of the Habsburg and Russian empires aggravated the problem as they sought to protect key industries. With the

⁴⁸ John Darwin, *The Empire Project: The Rise and Fall of the British World-System, 1830-1970* (Cambridge: Cambridge University Press, 2009), 433 writes that agrarian protection was virtually universal in the interwar period.

⁴⁹ Carr, 115-116.

economic planning inherent in such an approach, there could be no harmony of interests.⁵⁰

International economic conferences in this view are prone to disappoint because they assume that there exists a “solution” or “plan” that would be favourable to all.⁵¹

Economic power could, in some circumstances, be used as an instrument of foreign policy as an alternative to military power. The exercise of economic power involves the ability to interrupt economic relations -- this might involve interrupting a country's access to goods or capital markets.⁵² The ability to use this weapon, however, implies asymmetry in economic relations between two countries. Rather than being *interdependent*, one state is *dependent* on the other.⁵³ To elaborate on this principle, Keohane and Nye distinguish between “sensitivity” and “vulnerability.”⁵⁴ *Sensitivity* involves the costs a country suffers arising from outside events *before* policies are altered to try to change the situation. *Vulnerability* involves the costs a country suffers *after* policies have been changed to alter the situation. Thus, for example, a commodity exporting country could be sensitive to international price changes in that commodity. If, however, it is a simple matter to change which commodities it produces, it may not be vulnerable. Similarly a country's economy may be sensitive to the loss of a major export market, but not vulnerable if finding a replacement market is easy. In the next chapter, it will be argued that Canada was a vulnerable economy by virtue of its reliance on a relatively few export products sold in a relatively few foreign markets. Canada's economic history in the early 1930s is in large measure an attempt to reduce this vulnerability.

⁵⁰ Ibid., 51.

⁵¹ Ibid., 55.

⁵² Ibid., 124; Gilpin, 80; and Hirschman, 13.

⁵³ Keohane and Nye, 7-9.

⁵⁴ Ibid., 11-14.

b) Leaders and Ideas

Because they tend to focus on system-level explanations of state behaviour both realist and liberal international relations theories have sometimes been criticized for their tendency to downplay or even ignore the influence of individuals on international relations and international history.⁵⁵ In reaction to the systemic and impersonal treatments of international relations and foreign policy there has been a strain of international relations literature that argues that the personality and beliefs of the foreign policy-makers play a determining role in the policies a state will pursue. Titles such as "... Bringing the Statesman Back In," and "Who Leads Matters..." are indicative of this. While system-level theory talks of state interests, it assumes these interests are exogenously determined and that states enter into relations with interests already formed. Someone, however, has to determine what a state's interests are. The individual and his or her beliefs are thus important. Leaders, in Ariel Roth's argument, have three core tasks: to diagnose a situation for the group they lead; to prescribe action to address that situation; and to mobilize the group they lead to act.⁵⁶ In other terms, leaders operate in a structure, of which the state system is an important part. They do have, however, exercise some agency, so that their characters and their beliefs matter. Thus, for example, that balance of power, which realists might have predicted to arise in Europe in the 1930s did not, according to Roth, because the leadership in Britain misdiagnosed the political and military situation in which it found itself.⁵⁷

⁵⁵ Byman and Pollack, 108 quote the former Harvard professor Henry Kissinger who served as American Secretary of State in the 1970s, "As a professor, I tended to think of history as run by impersonal forces. But when you see it in practice, you see the difference personalities make."

⁵⁶ Ibid., 48-49.

⁵⁷ Roth, 3.

How much agency a leader has may depend on aspects of the situation in which the leader must operate.⁵⁸ Where power is concentrated in one individual or office, for example, the influence of the leader will tend to be important. Margaret Hermann et al. refer to the position of a “predominant leader” where a country has one individual vested with the authority – by constitution, law or general practice – to commit or withhold resources of government with respect to foreign policy.”⁵⁹ Similarly, where the political and economic situation is fluid or when systemic, domestic and bureaucratic forces are undecided or in conflict, the potential for a leader to exercise decisive influence increases.⁶⁰ The personality of a leader can be an important factor in the determination of foreign policy outcomes. Hermann et al., for example distinguish between “goal-driven” and “situationally responsive” leaders.⁶¹ The former are more likely to be driven by personally-held ideas or ideology and to view constraints on their actions not as binding, but rather as obstacles to be overcome. The latter, by contrast, will tend to be more pragmatic, opportunistic and flexible in their approach.

Another criticism made of both the realist and the liberal internationalist schools is that, in assuming interests to be exogenously determined or given, they underestimate the importance of identities and ideas in international politics.⁶² Later schools of international relations theory, especially the “constructivist” school, argue that interests are themselves determined at least in part by the identities of international actors, and these identities are a function of ideas and

⁵⁸ Robert Tucker, “Personality and Political Leadership,” *Political Science Quarterly* Vol. 92 No. 3 (Autumn, 1977), 383-393.

⁵⁹ Hermann et al., 84 and Byman and Pollack, 140.

⁶⁰ Byman and Pollack, 140-141

⁶¹ Hermann, 86.

⁶² Keohane would deny this is true of the complex interdependence school. Judith Goldstein and Robert O. Keohane, “Ideas and Foreign Policy: An Analytical Framework,” in Judith Goldstein and Robert O. Keohane (eds.) *Ideas and Foreign Policy: Beliefs, Institutions and Political Change* (Ithaca and London: Cornell University Press, 1993), 3, say that interests *and* ideas matter in foreign policy determination.

normative structures held by actors.⁶³ The interwar period, with the complex security and economic issues faced by policy-makers, has been a fertile period for the study of the impact of ideas, images and identities on foreign and economic policy. How a person chooses is a function not only of what he wants, but of what he believes.⁶⁴

Ideas or beliefs held by individuals, particularly by leaders, perform three functions.⁶⁵ Firstly, in a world of highly complex issues, an idea or set of ideas can serve as a world view, cognitive roadmap or schema to help policy-makers make sense of complex issues. Ideology is another term that is sometimes used to describe this function, although Ngaire Woods does not use this term, viewing it as “too value laden.”⁶⁶ The foundational ideas of policy-makers about the international economy, the business cycle and human nature often conditioned their responses to the Great Depression. Barry Eichengreen and Peter Temin, for example, refer to “the gold standard mentality” as a factor that prevented policy-makers from breaking free of the restraints imposed by that system.⁶⁷ Almost everywhere policy-makers began the depression with the idea that the correct response was deflation – balanced budgets and adherence to the gold standard.⁶⁸ The robust explanation of the adherence to fiscal orthodoxy is to be found, in

⁶³ For an overview of the constructivist school of international relations theory see Christian Reus-Smit, “Constructivism,” in Birchall, Linklater et al. 188-212. See also Nossal, Roussel, and Paquin, 10-11 and 117-118; and Ngaire Woods, “Economic Ideas and International Relations: Beyond Rational Neglect,” *International Studies Quarterly* Vol. 39 No. 2 (June 1995), 161-180.

⁶⁴ Woods, 166; Goldstein and Keohane, 13-22; and Peter Hall, “Introduction,” in Peter Hall (ed.), *The Political Power of Economic Ideas: Keynesianism Across Nations* (Princeton: Princeton University Press, 1989), 3-26.

⁶⁵ This explanation borrows from Woods and from Goldstein and Keohane, 3-30.

⁶⁶ Woods, 163.

⁶⁷ Barry Eichengreen and Peter Temin, “The Gold Standard and the Great Depression,” *Contemporary European History* Vol. 9 No.2 (July, 2000), 183-207.

⁶⁸ Gourevitch, 25.

the words of Bradford Lee, “in the confined space of the minds of U.S., British, and French policy-makers in the 1930s.”⁶⁹

Secondly, ideas provide causal explanations of events, or ends-means relationships. Policy-makers are motivated by what they believe will work in a given situation.⁷⁰ Disagreement among policy-makers about causal explanations can be a major factor inhibiting cooperation.⁷¹ As shall be seen in the discussion of the Imperial Economic Conference, part of the reason for its failure was an inability on the part of policy-makers to agree on what sort of relationship the various members should have.

Thirdly, normative ideas provide principles or criteria for distinguishing acceptable and unacceptable behaviour. Sets of such principled beliefs underlie “international regimes” and institutions.⁷² Normative ideas also played a role in determining the actions policy-makers took to address the Depression. Walter Salant refers to the “crime and punishment” theory of business cycles, whereby a depression was a necessary corrective to excesses in a previous boom period.⁷³ Bradford Lee suggests that Herbert Hoover’s belief that government involvement in the economy would weaken the “moral fibre” of society was a factor in his reluctance to undertake more decisive action early in the depression.⁷⁴ Only later, as more policy-makers

⁶⁹ Bradford Lee, “The Miscarriage of Necessity and Invention: Proto-Keynesianism and Democratic States in the 1930s,” in Hall, 161.

⁷⁰ Peter Hall, “Conclusion: The Politics of Keynesian Ideas,” *Ibid.*, 361-362.

⁷¹ Jeffrey A. Frankel and Katherine E. Rockett, “International Macroeconomic Cooperation When Policymakers Do Not Agree on the True Model,” *American Economic Review*, Vol. 78 No. 3 (June, 1988), 318-340.

⁷² Goldstein and Keohane, 20.

⁷³ Walter S. Salant, “The Spread of Keynesian Doctrines and Practices in the United States,” in Peter Hall, 32.

⁷⁴ Lee, 164-165.

accepted the notion that government should take measures to maintain full employment did support for Keynesian policies of demand stimulation gain support.⁷⁵

A theory of the importance of ideas in international politics, of course, must explain how and why new ideas arise as well as how and why they become accepted by policy-makers. Woods refers to the “logic of discovery” explanation of the rise of new ideas.⁷⁶ According to this explanation the discovery of new ideas is prompted by new circumstances which existing ideas are incapable of explaining. Major events like wars and depressions give rise to new ideas.⁷⁷ The new ideas then prevail because they are “better” – they provide explanations for problems, persons to blame and solutions. The “logic of discovery” model lacks an explanation of how ideas get from the discoverers to the implementers. In the case of economic problems, the discoverers are usually economists, but one must provide an explanation of how and why ideas become accepted by the economic community as a whole. There are, after all, often many competing ideas. And even if an idea is widely accepted by economics community it must still win acceptance by policy-makers. Proto-Keynesian ideas about deficit-financed expansionary fiscal policies, for example, circulated for years in the economics communities in Britain and the United States before they were taken up by policy-makers.⁷⁸ As another example, in the spring of 1930, more than 1000 American economists, virtually the entire profession at the time, signed a letter urging Hoover not to implement the Smoot-Hawley tariff, yet implement it he did.⁷⁹

Literature on ideas in international politics and economics thus focuses on the characteristics of states and systems that enable ideas to gain the acceptance of policy-makers.

⁷⁵ Salant, 29, Hall 365-366, Eichengreen, *Golden Fetters*, 6-7.

⁷⁶ Woods, 166-168.

⁷⁷ G. John Ikenberry, “Creating Yesterday’s New World Order: Keynesian ‘New Thinking’ and the Anglo-American Postwar Settlement,” in Goldstein and Keohane.

⁷⁸ Lee, 136-141.

⁷⁹ Gourevitch, 54.

Some of the literature focuses on domestic interest groups and political coalitions.⁸⁰ Interests do matter when one looks at the progress of an idea in political systems. The shifting, confusing and sometimes contradictory international policies of the United States in the interwar period, for example, reflect the conflict between isolationist and internationally-oriented groups in that economy.⁸¹ The characteristics of the state itself and its bureaucracy can also influence the take-up of ideas. Margaret Weir, for example, argues that Keynesian ideas were quicker to win acceptance in the United States than in Britain because of the closed hierarchical nature of the Treasury in the latter.⁸² The Treasury in Britain was sufficiently and entrenched that it was able to largely ignore the advice of the Economic Advisory Council which Prime Minister Ramsay MacDonald had set up.⁸³ In the United States, by contrast, the bureaucracy was not as powerful and changes when administrations change. Thus, the Roosevelt Administration saw very rapid adoption of new approaches when it took office. Reforms in the bureaucracy can bring acceptance of new ideas. New approaches to monetary policy and the exchange rate became more readily accepted when the responsibility for the exchange rate was taken from the central bank in both countries and given to the Treasury or the executive.

A recurring theme in the literature on ideas in international economic policy is the importance of changing people in government and the bureaucracy. It is often easier to change people than minds. Writing on what finally overcame the “gold standard mentality” among policy-makers, Eichengreen and Temin conclude, “The world economy did not recover when these people changed their minds; rather, recovery began when mass politics, in its various

⁸⁰ Ibid., 17 and Woods, 165.

⁸¹ Kathleen Burk, “The Lineaments of Foreign Policy: The United States and a ‘New World Order,’” *Journal of American Studies* Vol. 26 No. 3 (December 1992) and Jeff Frieden, “Sectoral Conflict and Foreign Economic Policy, 1914-1940,” *International Organization* Vol. 42 No. 1 (Winter, 1988).

⁸² Margaret Weir, “Ideas and Politics: The Acceptance of Keynesianism in Britain and the United States,” in Hall, 61.

⁸³ Ibid, 61. See also Susan Howson and Donald Winch, *The Economic Advisory Council, 1930-1939: A Study in Economic Advice During Depression and Recovery* (Cambridge: Cambridge University Press, 1977).

guises removed them.”⁸⁴ Similarly, Woods, Lee, Weir and others point to the importance of recruiting intellectuals into the government and bureaucracy. In the United States, for example, Jacob Viner was recruited into the Treasury, while the Federal Reserve recruited Lauchlin Currie – both of these brought with them an acquaintance with and openness to new ideas.⁸⁵

c) Small States in International Relations Literature

The importance that many international relations theorists attach to power has meant that much of the subject matter of the discipline has focussed on the interests and actions of the most powerful states in the system – the so-called Great Powers. An Italian delegate at the League of Nations told E.H. Carr that in his experience he “never saw a dispute of any importance settled otherwise than by an agreement between the Great Powers” and that the League’s deliberations comprised “a system of detours, all of which lead to one or other of these two issues: agreement or disagreement between Great Britain, Italy, France and Germany.”⁸⁶ In the realm of ideas too, size and power matter, since the overall rules of the international system and international organizations are determined by the largest, most powerful players. Indeed, while the ability to prevail in a dispute is one dimension of power, according to Steven Lukes, the ability to control the agenda of an international organization or conference is an important second dimension.⁸⁷ In short, ideas originating in the big states are more likely to affect the international system than ideas originating in small states.⁸⁸

⁸⁴ Eichengreen and Temin, 185.

⁸⁵ Lee, 136

⁸⁶ Carr, 104.

⁸⁷ Steven Lukes, *Power: A Radical View* Second Edition (New York: Palgrave Macmillan, 2005), 20-25.

⁸⁸ Woods, 169.

In the early 1930s there were perhaps five or six great powers – the United States, Great Britain, France, Germany, Italy and, possibly, Japan.⁸⁹ Then there was “the rest”, the *nichtgrosstaaten*, all of whom were considered small powers or countries.⁹⁰ It bears mentioning, of course, that small as used in this sense refers to the power exercised by the state rather than its physical size. Miriam Fendus Elman thus uses the terms “small,” “weak” and “insecure” interchangeably.⁹¹ Canada at the time was considered, and indeed considered itself, a small power.⁹²

Despite their often being seen as of marginal significance to the overall workings of the international system, there is a strain of the international relations literature devoted to the role of small powers in the system.⁹³ Most would argue that small states are not different from great powers in terms of their motives – if they are less internationally sinful than the great powers, it is not because they are more saintly, but because they are less likely to be successful sinners.⁹⁴ The main difference between the big and small powers is the extent to which they are able to influence the international system or are influenced by it. The “received wisdom” in international relations theory is that small states are as more constrained in their behaviour by the international system because they are more vulnerable to outside pressure than are great

⁸⁹ Japan had become a major power in military terms by the First World War -- see William E. Rappard, “Small States in the League of Nations,” *Political Science Quarterly* Vol. 49 No. 4 (December, 1934), 550. In economic terms, however, the case is less clear. Its links with the rest of the world were limited so that even its major banking crisis in 1927 had virtually no impact overseas. See Kindleberger, 59.

⁹⁰ Rappard, 545. Rappard borrows the “*nichtgrosstaaten*” from the German scholar, Max Huber.

⁹¹ Miriam Fendius Elman, “The Foreign Policy of Small States: Challenging Neo-Realism in Its Own Backyard,” *British Journal of Political Science* Vol. 25 No. 2 (April, 1985), 171, footnote 1.

⁹² Glazebrook, 106 and Nossal, Roussel and Paquin, 51. The term “middle power” which Canadians commonly use nowadays to designate Canada’s place in the world did not come into use until after the Second World War.

⁹³ Christine Ingebritsen, Ivor Neumann et al., *Small States in International Relations* (Seattle: University of Washington Press and Reykjavik: University of Iceland Press, 2006) provide a survey of and selections from this literature.

⁹⁴ Rappard, 574.

powers.⁹⁵ This is true in economic policy as it is in security policy. On security issues, small state vulnerability is a function of the disparity they face in power capabilities. On economic issues small states are usually more trade dependent than larger states and thus reliant on other countries for access to markets or capital. Thus, says Gourevitch, Germany and the United States in the 1930s could attempt economic nationalism, whereas small states, such as Sweden, had to look for niches in the international economic system.⁹⁶

Given these traits, certain tendencies have been noted in small-state foreign policy. Trygve Mathisen says, for instance, that foreign policy for small states consists mainly in relations with neighbouring states or with great powers in whose sphere of influence they are located.⁹⁷ Small-state foreign policy is usually defensive; since they cannot influence the international system, they seek to ensure that changes in the international system do not harm their interests. With respect to great powers, they face a choice of two strategies. They can try to “bandwagon” or ally themselves with the great power. Alternatively, they can join with other states in an effort to “balance” the strength of the great power. In purely functional terms, small powers are sometimes limited in the extent to which they can exercise influence in the international system by virtue of their not having the means. Their diplomatic services are often small and their sources of information restricted.⁹⁸ Small states tend to support international organizations for a number of reasons. First, membership in such an organization can confer a formal equality of status and thus a certain amount of prestige. Secondly, to the extent that an international organization is able to restrain the behaviour of major powers, membership can

⁹⁵ Elman, 172.

⁹⁶ Peter Gourevitch, “Keynesian Politics: The Political Sources of Economic Choices,” in Hall, 102. See also Ger Van Roon, *Small States in Years of Depression: The Oslo Alliance, 1930-1940* (Assen/Maastricht: Van Gorcum, 1989), 62-63.

⁹⁷ Trygve Mathisen, *The Function of Small States in the Strategies of Great Powers* (Oslo, Bergen, Tronho: Universitetsforlaget, 1971), 238.

⁹⁸ *Ibid.*, 241-242.

enhance the security of smaller powers. Thirdly, membership might confer a small state with at least some ability to influence the rules of the international system.⁹⁹

Yet even with all the systemic constraints faced by small states, they are not mere pawns; they do have some agency or scope for independent action. In the first place, realist and neo-realist theories tend to portray international relations as more confrontational than is often the case; they assume that if states have power capabilities, they will use them. This assumption, argue small state analysts, is characteristic of “highly immature anarchy with predatory actors.”¹⁰⁰ Small states thus do not always live in fear for their survival. Moreover, if small states have alternatives in terms of with which great powers they interact, they may have some leverage in their relations.¹⁰¹ This leverage may come from the ability to switch their allegiance. In some circumstances, small powers can play a mediating role between major powers.¹⁰² As well, small states may not be small in all areas of international relations. Keohane argues that a small state may have influence in certain “issue areas,” if, for example, it possesses resources that are of use or interest to one or more of the great powers.¹⁰³

II. Canada: The Foreign Economic Policy of a Small Power

a) The International System as Seen from Canada

For Canada in the 1930s, the “international system” comprised the British Empire and the United States. In fact, the definition of the system could be narrowed further -- the British Empire for all practical purposes meant Britain itself, as Canadians generally showed little

⁹⁹ Robert O. Keohane, “Lilliputians’ Dilemmas: Small States in International Politics,” in Ingebritsen et al., 58.

¹⁰⁰ Neumann, 19 and Elman, 176.

¹⁰¹ Elman, 177 and Neumann, 11.

¹⁰² Mathisen, 240.

¹⁰³ Keohane, “Lilliputians” 58 and Mathisen, 63.

practical interest in the rest of the Empire.¹⁰⁴ Canada in the post-war period was in the same position as the other British Dominions in having to deal with the decline of British power, but was in the unique position of sharing a border with the principal rising power in the world.¹⁰⁵ The relationship between Britain and the United States was thus the source of many of the foreign policy issues with which Canadian Governments of the time had to deal. It is common for Canadian historians to speak of the North Atlantic Triangle, a term coined by John Brebner.¹⁰⁶ David Mackenzie, however, claims that the portrayal of the relationship as triangular is a Canadian notion.¹⁰⁷ Britain and the United States did not generally see their relationship as triangular at least on most issues, but rather as bilateral or perhaps, in a larger sense, global. They dealt directly with each other. Being great powers, however, both had interests in other parts of the world and involving other countries that, of course affected Canada. In both countries the process of foreign policy determination was complicated and involved reconciling domestic interests as well as bureaucratic and legislative priorities. The situation became even more complicated when the Depression of the early 1930s led to political changes within these countries and abrupt changes in foreign economic policy. Still, as will be shown below, historians of the period have shown that at times there was indeed something of a British-American competition for Canada's affections.

¹⁰⁴ George Parkin de Twenebroker Glazebrook, *A History of Canadian External Relations, Volume II: In the Empire and the World, 1914-1939* (Toronto, Montreal: McClelland & Stewart, 1966), 41. This was true as well of O.D. Skelton, the Under Secretary of State for External Affairs. See Norman Hillmer, "The Anglo-Canadian Neurosis: The Case of O.D. Skelton," in Peter Lyon (ed.), *Britain and Canada: Survey of a Changing Relationship* (London: Cass, 1976), 66.

¹⁰⁵ David Mackenzie, "Canada, the North Atlantic Triangle, and the Empire" *Oxford History of the British Empire* Vol. III, 575 and Norman Hillmer, "A British High Commissioner for Canada, 1927-1928," *Journal of Imperial and Commonwealth History* Vol. 1 (1972-1973), 347.

¹⁰⁶ Mackenzie, 574. See also, for example, Brian J.C. McKercher and Lawrence Aronsen, *The North Atlantic Triangle in a Changing World: Anglo-American-Canadian Relations, 1902-1956* (Toronto: University of Toronto Press, 1996).

¹⁰⁷ Mackenzie, 575.

The British-American relationship in the interwar period was complex and shifting, often depending on which elements of each country held the upper hand in determining foreign policy. In broad terms, the two countries emerged from the First World War with similar goals: to promote peace and recovery in Europe and to restore key aspects of the pre-war international economy, notably an open trading system and the re-establishment of the gold standard.¹⁰⁸ Some elements in both British and American societies got along well and cooperated with each other in pursuit of this objective. The leading financial interests in both countries knew one another well and cooperated effectively. The 1920s is sometimes referred to as “the age of bankers’ diplomacy.”¹⁰⁹ Historians, however, unlike some politicians, have not seen the relationship as one of partnership or kinship¹¹⁰. Terms such as “rivalry,” “struggle,” “replacing” or “succeeding” have often been employed to describe the relationship.¹¹¹

Emerging from the First World War, the situation of the major economic powers had changed considerably. The United States, which in 1914 had an economy twice the size of Britain’s, by the end of the war had an economy three times the size.¹¹² It entered the war as a net debtor nation, but ended it as the largest creditor country in the world. Realist theory would

¹⁰⁸ Frank C. Costigliola, “Anglo-American Financial Rivalry in the 1920s,” *Journal of Economic History* Vol. 37 No. 4 (December, 1977), 913.

¹⁰⁹ Burk, “Lineaments,” 379. Also see Robert Self, *Britain, America and the War Debt Controversy* (Abingdon, Oxon,; New York: Routledge, 2006), 11.

¹¹⁰ In 1921, Lloyd George told Cabinet “...the people who govern America are our people. They are our kith and kin. The other breeds are not on top.” A 1927 Foreign Office memorandum complained that in the past, the British had “treated them (the Americans) too much as blood relations, not sufficiently as a foreign country.” Both quotes are from Robert Self, *Britain, America and the War Debt Controversy*, 5.

¹¹¹ See for example, Brian J.C. McKercher (ed.), *Anglo-American Relations in the 1920s: The Struggle for Supremacy* (Edmonton: University of Alberta Press, 1990); Roberta Allbert Dayer, “Anglo-American Monetary Policy and Rivalry in Europe and the Far East, 1919-1931,” in McKercher *Anglo-American Relations*, 158-186; Brian J.C. McKercher, *Transition of Power: Britain’s Loss of Global Pre-eminence to the United States, 1930-1945* (Cambridge: Cambridge University Press, 1999); Self; D. Cameron Watt, *Succeeding John Bull: America in Britain’s Place, 1900-1975* (Cambridge: Cambridge University Press, 1984); and Frank C. Costigliola, “Anglo-American Financial Rivalry in the 1920s,” *Journal of Economic History* Vol. 37 No. 4 (December, 1977), 911-934.

¹¹² G. John Ikenberry, *After Victory: Institutions, Strategic Restraint and the Rebuilding of Order After Major Wars* (Princeton: Princeton University Press, 2000), 119-120.

lead one to expect that the United States would have exercised its power.¹¹³ Yet Kindleberger explains much of the difficulty of the interwar period to the refusal of the United States to assume the position of hegemon. There certainly was some recognition in the United States of the new position of power it held. In July 1917, American President Woodrow Wilson told his adviser Edward House, “When the war is over we can force them [the associated powers] to our way of thinking because by that time they will, among other things, be financially in our hands.”¹¹⁴ Wilson had a vision of a new world order in which the United States would anchor an international system of collective security based on the League of Nations and would likely have been willing to use economic power to achieve this vision.¹¹⁵ The American role in financing the Allies in the war had done much to create a constituency favouring American involvement and leadership in the international economy. Prominent in this constituency was the financial industry and other sectors with prominent overseas investments. From 1925 until the end of the decade, American financial interests made major investments in Europe, especially in Germany.¹¹⁶ They saw the importance of enabling the countries to which they had lent money to earn the American dollars required to repay international loans. The internationalists thus favoured a more open trading system and greater flexibility with respect to the repayment of allied war debts. The internationalists also saw the possibility of, if not supplanting London as the centre of the world financial system, at least occupying a comparable place. Federal Reserve Bank of New York President Benjamin Strong, quickly established links with his European

¹¹³ Frieden, 61.

¹¹⁴ Quoted in John Ikenberry, *After Victory*, 122. Also see Self, 122 and Roberta Allbert Dayer, “Strange Bedfellows: J.P. Morgan, Whitehall and the Wilson Administration in World War I,” *Business History* Vol. 18 (1976), 135.

¹¹⁵ Burk “Lineaments,” 377.

¹¹⁶ See, for example, Lester V. Chandler, *Benjamin Strong: Central Banker* (Washington: The Brookings Institution, 1958), 272-281.

counterparts, especially Bank of England Governor Montagu Norman, with the objective of establishing and managing the international financial system based on the gold standard.¹¹⁷

Contending with the internationalist interests, however, were strong isolationist and protectionist tendencies.¹¹⁸ Soon after the war, many in the United States came to believe that involvement in the war had been a mistake and that future entanglements in Europe should be avoided. At the same time, the United States faced economic problems of its own which needed to be addressed. The isolationist and protectionist tendencies were particularly strong in the Republican Party, which controlled Congress from 1919 to 1933 and the administration from 1921 to 1933.¹¹⁹ Herbert Hoover, who was Commerce Secretary in two administrations and then president himself in 1929, was strongly protectionist. American trade policy was thus protectionist through the 1920s, and became more so as the Depression took hold. Even Franklin D. Roosevelt, whose personal tendencies and instincts were internationalist, had to be circumspect on trade issues when he became President in 1933.¹²⁰ The struggle between the internationalists and the isolationists occurred within the government and within administrations. Through the 1920s the Commerce Department tended to be protectionist in outlook while the State Department tended to be more internationalist.¹²¹ Even within departments, however, different tendencies existed. Peter Kasurak, for example, finds that the State Department officials based in Ottawa tended to be more sympathetic to Canadian interests than Washington-

¹¹⁷ Chandler, 258-264 and Liaquat Ahamed, *Lords of Finance: The Bankers Who Broke the World* (New York: Penguin Press, 2009), chs. 8-9.

¹¹⁸ Frieden, 6-7. Burk, "Lineaments," 382-385.

¹¹⁹ See United States Senate, "Party Division in the Senate, 1789 to Present, http://www.senate.gov/pagelayout/history/one_item_and_tasers/partydiv.htm and United States House of Representatives, Party Division in the House of Representatives, 1789 to the Present, <http://history.house.gov/Institution/Party-Divisions/Party-Divisions/>. In the 72nd Congress (1931-1933) there was a virtual tie in both Houses.

¹²⁰ Burk, "Lineaments," 378-379.

¹²¹ Frieden, 68.

based staff.¹²² And within administrations there were differences of view. In the early days of the Roosevelt administration, the so-called Brain Trusters behind Roosevelt's New Deal, such as Raymond Moley and Rexford Tugwell, were known to oppose the free trade approach of Secretary of State Cordell Hull.¹²³

Historians have shown that in Britain in the inter-war period, as in the United States, there were contending isolationist and internationalist approaches to economic policy. In Britain, however, the financial and trade-based sectors of the economy were more influential in comparison with the protectionist agricultural sector.¹²⁴ Britain, while still a net creditor in aggregate terms, had major debts to the United States. During the war, Britain had borrowed on behalf of the other Allies, notably France and Belgium. In the minds of the Allies, the ability to repay war debts was tied to the question of German reparations – unless they were able to collect reparations payments from Germany, the Allies did not see themselves as being able to repay the war debts to the United States. For its part, the United States saw the issues as entirely separate. It insisted on repayment of war debts irrespective of whether the Allies were able to collect on reparations. According to Kindleberger, the reparations and war debt issue “complicated and corrupted the international at every stage of the 1920s and during the depression to 15 June 1933, three days after the opening of the World Economic Conference.”¹²⁵ Britain's subsequent default in 1934 led the American Congress to pass an act prohibiting loans to governments in

¹²² Peter Kasurak, “American Foreign Policy Officials and Canada, 1927-1941: A Look Through Bureaucratic Glasses,” *International Journal* Vol. 32 No. 3 (Summer, 1977), 551. See also William Phillips, *Ventures in Diplomacy* (London: John Murray, 1955). Phillips was the first American Minister to Canada, serving from 1927 to 1929.

¹²³ Elliott A. Rosen, “Intranationalism vs. Internationalism: The Interregnum Struggle for the Sanctity of the New Deal,” *Political Science Quarterly* Vol. 81 No. 2 (June 1966), 274-297; Robert Dallek, *Franklin Roosevelt and American Foreign Policy, 1932-1945* (New York and Oxford: Oxford University Press, 1995), Ch 1; Herbert Feis, *1933: Characters in Crisis* (Boston, Toronto: Little Brown and Company, 1966), Ch. 11; Arthur M. Schlesinger, *The Age of Roosevelt: The Coming of the New Deal* (Cambridge, Mass.: Riverside Press, 1958), Ch. 11..

¹²⁴ Gourevitch 137-138.

¹²⁵ Kindleberger, 39. The accommodation reached between Britain and the United States on June 15, 1933 was itself temporary. The war debt issue soured relations through the 1930s as well (see Chapter 6).

default of their obligations to the United States Treasury. This act would later threaten the Roosevelt administration's efforts provide financial assistance to Britain in the Second World War.¹²⁶

The place of empire in British foreign policy has been a contentious issue in the historiography of the period. That the bonds of empire loosened through the 1920s and 1930s is fairly well accepted and documented.¹²⁷ Historians debate, however, the extent to which this suited British interests and was even to some extent encouraged. Phillip Wigley, for example, claims the dominant tendency among historians through at least the mid-1970s was to view Britain as adopting a rather passive position with respect to the loosening of imperial ties, responding "to pressures for change from Dominions with goodwill, trying to retain what it could of united diplomacy."¹²⁸ Britain wanted to preserve the Empire in part because the "white dominions" had been a source of manpower and materials during the war and were thus valuable contributors to British power.¹²⁹ The Empire was also the site of British investment. Furthermore, there were important ties of blood and sentiment.¹³⁰ As the international environment grew more threatening in the 1930s with the rise of Germany, Japan and Italy and the tendency of other countries to adopt policies of economic nationalism to combat the depression, the argument for keeping the Empire grew even stronger in some eyes. The desire to preserve the Empire led Britain to merely acquiesce as the Dominions demanded more and more

¹²⁶ Dallek, 74 and David M. Kennedy, *Freedom from Fear: The American People in Depression and War, 1929-1945* (New York, Oxford: Oxford University Press, 1999), 390-391.

¹²⁷ See, for example, John Darwin, "A Third British Empire? The Dominion Idea in Imperial Politics," *Oxford History of the British Empire* Vol. III, Ch. 3, 64-87; John Darwin, *Empire Project*, Ch. 10, J.G. Granatstein, *How Britain's Weakness Forced Canada into the Arms of the United States* (Toronto: University of Toronto Press, 1989) and R.F. Holland, "The End of an Imperial Economy: Anglo-Canadian Disengagement in the 1930s," *Journal of Imperial and Commonwealth History* Vol. XI No. 2 (January, 1983), 159-174.

¹²⁸ Philip G. Wigley, *Canada and the Transition to Commonwealth: British-Canadian Relations, 1917-1926* (Cambridge: Cambridge University Press, 1977), 2.

¹²⁹ Darwin, "Third British Empire," 66-67.

¹³⁰ Darwin, *Empire Project*, 449.

autonomy in the conduct of their own foreign affairs. Canada's growing economic ties with the United States in the interwar period were viewed by some, such as Stanley Baldwin, with alarm. Action had to be taken to win back Canada's allegiance to the empire; as Hillmer shows, this was a consideration in the British decision to establish a High Commission in Canada and to fill it with someone of sufficient heft and ability to counter the influence of the American Minister, William Phillips.¹³¹

Wigley and others argue, however, that there was a significant constituency in Britain that favoured a looser imperial connection for both foreign and economic policy reasons. On foreign policy, Britain had extensive interests and relations outside the empire. Unlike Canada, for example, Britain was very much interested in what was going on in Europe and in the Far East. Especially in the early 1930s, when Germany and Italy in Europe and Japan in the Far East began to assume a more threatening posture, the Foreign Office preferred to have a free hand rather than to have to consult with the Dominions before taking a position.¹³²

Similarly, on economic policy, the interests of Britain and the Dominions often diverged. Hopes for forging the empire into a single economic unit were based on complementarity of economic structures. Britain would import raw materials while the Dominions and colonies would import manufactured goods from Britain. By the 1920s and especially the 1930s, that model had broken down. The Dominions had plans of their own to diversify their economies and encourage their own manufacturing sectors. As well, new suppliers had grown up, such as Japan in India and the United States in Canada. For its part, Britain in the early 1930s faced competing sources of supply for raw materials, for example, the Soviet Union, the Scandinavian

¹³¹ Hillmer, "High Commissioner," 350-351. In 1928, Sir William Clark was appointed British High Commissioner in 1928.

¹³² Wigley, 280.

countries and Argentina. It thus did not necessarily see advantage in securing supplies from imperial sources.¹³³

Canada, of course, was the third corner of the North Atlantic triangle. Historically its closest political and economic ties were with Britain. Within the empire, Canada was the senior dominion and, until 1925, the most assertive.¹³⁴ With the *de facto* recognition of the equality of status between the Dominions and Britain in 1926, Canada was more or less satisfied with its place within the empire.¹³⁵ In the early twentieth century, however, Britain had been displaced as Canada's most important trading partner and source of investment. Relations with Canada in the interwar period have received little attention from American scholars. Richard Kottman is the scholar who has looked at this area the most thoroughly. He finds that the lack of interest in Canada among American scholars is matched by a lack of interest certainly in the Hoover administration.¹³⁶ Essentially Hoover seems to have believed that the United States could exploit the asymmetry in Canadian-American economic relations. Tariff measures directed against Canada would therefore not meet with retaliation sufficient to prevent an increase in American exports to Canada.¹³⁷ This calculation was modified when the Ottawa Agreements were reached. The United States did fear the creation by the British of an imperial trading bloc.¹³⁸ The internationalist element in the Roosevelt administration felt this more keenly.

¹³³ Holland, 169-170.

¹³⁴ Wigley, 1 and Hillmer "High Commissioner," 347.

¹³⁵ Darwin, "Third Empire," 69 and Hillmer and Granatstein, 102-104.

¹³⁶ Richard N. Kottman, "Herbert Hoover and the Smoot-Hawley Tariff: Canada, A Case Study," *Journal of American History* Vol. 62 No. 3 (December, 1975), 609-635.

¹³⁷ Kasurak, 549.

¹³⁸ *Ibid.*, 548.

b) Development of the Canadian State

The Canadian historical literature on the interwar period stresses the enormous change in the Canadian state in both its economic and foreign policy orientation and its ability to conduct foreign and economic policy. Essentially the period saw Canada evolve from a part of the British Empire to an independent, but more clearly North American state. If, to quote Ian Drummond and Norman Hillmer, Canada had been “North American in geography, but British in history,”¹³⁹ the interwar period, and in particular the 1930s, was the period when history caught up to geography. To be sure, this progression was not uniform. It met with resistance and regret on the part of some and was sometimes pushed and sometimes disrupted by events outside Canada’s borders. Nevertheless, trends asserted themselves. The Canadian state also increasingly acquired the means to conduct independent foreign and economic policy.

The Great Depression prompted numerous studies of the history and structure of the Canadian economy. An early history of the Canadian economy during the interwar period was prepared by W.A. Mackintosh as a supporting study for the 1937 Royal Commission on Dominion-Provincial Relations.¹⁴⁰ The historical development of the Canadian economy and the problems it encountered in the Depression were concerns as well of much of the work of Harold Adams Innis in this period.¹⁴¹ In the late 1950s, A.E. Safarian published a detailed study of the Canadian economy in the Great Depression based upon his doctoral thesis; this study has recently been re-issued.¹⁴² In his forward, Safarian notes that whereas in the United States a number of important studies on the Depression have been published over the years, in Canada no

¹³⁹ Ian M. Drummond and Norman Hillmer, *Negotiating Freer Trade: The United Kingdom, the United States, Canada and the Trade Agreements of 1938* (Waterloo: Wilfrid Laurier Press, 1989), 17.

¹⁴⁰ W.A. Mackintosh, *The Economic Background of Dominion-Provincial Relations: Appendix III of the Royal Commission on Dominion-Provincial Relations* (Toronto: McClelland and Stewart Ltd., 1964(1939)).

¹⁴¹ Harold Adam Innis, *The Cod Fisheries* (New Haven: Yale University Press, 1940). See also H.A. Innis (ed.) *The Canadian Economy and Its Problems* (Toronto: Canadian Institute for International Affairs, 1934).

¹⁴² A.E. Safarian, *The Canadian Economy in the Great Depression* (Montreal and Kingston: McGill-Queen’s University Press, (1959) 2009)

other broad study of the Canadian experience in the Depression has been published.¹⁴³ Irving Brecher in his study of the development of Canadian economic policy in the interwar years, of course also provides background on the development of the economy.¹⁴⁴ The studies make the point that the Canadian economy was particularly sensitive to world economic conditions and vulnerable in that governments had few options when conditions deteriorated. The vulnerability sprang from Canada's heavy dependency on the export of a relatively few staple commodity products to a relatively few markets. One of the major economic trends of the early part of the twentieth century, a trend which accelerated in the inter-war period, was the switch in commodity exports and the implication for export markets. The new staple exports, newsprint, minerals, hydroelectric power, were sold mainly in the United States. The orientation of the Canadian economy thus became less east-west toward Europe, and more north-south. Even with the new commodities, however, prices depended on international conditions and were subject to sharp and sudden price movements. Compounding this source of vulnerability was the fact that the production of these products required heavy investment, often financed from abroad. As a result, the cost structure of the staple industries was inflexible.

Surveys of Canadian economic thought in the early 1930s generally conclude that macroeconomic theory and views on policy were underdeveloped. Theoretical economics was slow to develop in the Canadian academic community – Arthur Lower notes that the first Canadian book on theoretical economics did not appear until 1942.¹⁴⁵ Brecher's book remains a

¹⁴³ Ibid., Preface to the 2009 Carleton Library Edition, 1.

¹⁴⁴ Irving Brecher, *Monetary and Fiscal Thought and Policy in Canada, 1919-1939* (Toronto: University of Toronto Press, 1957).

¹⁴⁵ Arthur M. Lower, "The Development of Canadian Economic Ideas," in J.J. Normano (ed.), *The Spirit of American Economics: A Study in the History of Economic Ideas in the United States Prior to the Great Depression* (New York: Committee on the Study of Economic Thought, 1943), 240.

comprehensive and useful study of macroeconomic thought in the period.¹⁴⁶ Robin Neill's *A History of Canadian Economic Thought* covers a wider terrain both in its historical sweep and subject matter. He looks at the main currents in Canadian economics, especially the industrial organization/historical approach taken at the University of Toronto.¹⁴⁷ Douglas Owsram looks at the development of intellectuals interested in the application of social sciences to economic and social policy in the interwar period.¹⁴⁸ Although there had been a rapid expansion in Canadian universities in the post-First World War period,¹⁴⁹ the university teaching establishment was still small; there were between 1500 and 2000 university and college teachers in Canada at the beginning of the 1930s, of whom perhaps 150 taught social sciences.¹⁵⁰ Neill notes that there were forty-five Canadian participants in the American Economics Association meeting of 1928.¹⁵¹ Not only was the economics profession in Canada small, it was also not oriented to considering issues associated with business cycles. Neill and Owsram note that the focus in Canadian academic economics was mainly historical and institutional, concentrating on the long-run determinants of growth specific to Canada.¹⁵² While the historical/institutional approach did recognize the cyclical nature of the Canadian economy, given the cyclical sensitivity of global demand for staple commodities, it generally led to the view that short-term macroeconomic policy would be of little use. Recovery would depend on a recovery of world demand.¹⁵³ This

¹⁴⁶ Ibid.

¹⁴⁷ Robin Neill, *A History of Canadian Economic Thought* (London; New York: Routledge, 1991).

¹⁴⁸ Douglas Owsram, *The Government Generation: Canadian Intellectuals and the State, 1900-1945* (Toronto: University of Toronto Press, 1986).

¹⁴⁹ Ibid., 141.

¹⁵⁰ Ibid., 143.

¹⁵¹ Neill, 121.

¹⁵² Ibid., 124 and Owsram, 194.

¹⁵³ Neill, 141-144.

explains the importance that some, such as William Clifford Clark, attached to efforts at international cooperation.¹⁵⁴

In his discussion of the development of Canadian economic thought, Brecher concludes, that the Canadian economics profession in the early years of the Great Depression made essentially no contribution to the understanding of the Depression or of business cycles in general.¹⁵⁵ The real policy debate in those years was between “radical” policies favoured by progressive and agrarian elements based usually in the West and “orthodox” policies favoured by the banking/business community.¹⁵⁶ Even though Canada was unable to adhere to the gold standard from 1929 onward, the gold standard mentality remained strong.¹⁵⁷ In addition, there was a strong “debtor mentality,” or view that the overriding concern of policy had to be the preservation of Canada’s credit rating.¹⁵⁸

In addition to the dearth of thinking about economic policy issues, there was also little in the way of machinery to conduct economic policy. Looking at policy in this period, most conclude that there was in fact no monetary policy.¹⁵⁹ Canada did not have a central bank. Within the Department of Finance there was little attempt to use the levers it had at its command to implement counter-cyclical monetary policy.¹⁶⁰ The ability to carry out the economic analysis necessary was also lacking. In 1930, there was only one person with a graduate degree in

¹⁵⁴ William Clifford Clark, “The Flight from the Gold Standard,” *Queen’s Quarterly*, Vol. 38 No.4 (Autumn, 1931), 761-762.

¹⁵⁵ Brecher, 97.

¹⁵⁶ *Ibid.*, Ch. 7.

¹⁵⁷ *Ibid.*, 36, Bordo and Redish, Plumptre 159-161, Craig McIvor, *Canadian Monetary, Banking and Fiscal Development* (Toronto: Macmillan Co., 1961), 128-131.

¹⁵⁸ Robert B. Bryce, *Maturing in Hard Times: Canada’s Department of Finance through the Great Depression* (Kingston: McGill-Queen’s University Press, 1986). 130, McIvor, 127.

¹⁵⁹ Bothwell, Drummond, et al., 250, Brecher, 176, McIvor 135.

¹⁶⁰ Bryce.

economics, and this was O.D. Skelton, who headed the Department of External Affairs.¹⁶¹ When monetary policy was added to the agenda of the Imperial Economic Conference, O.D. Skelton was of the view that there was no one in government capable of writing the necessary briefs. It was on his recommendation that William Clifford Clark was hired to prepare the briefs.¹⁶²

Whether to establish a central bank and what it would do was to become the central issue in macroeconomic policy in the early 1930s.¹⁶³ Linda Grayson, George S. Watts, Milton L. Stokes, Douglas H. Fullerton have written histories of the founding of the Bank of Canada.¹⁶⁴ Robin Neill as well as Michael Bordo and Angela Redish have written shorter histories of the founding of the Bank.¹⁶⁵ The founding of the Bank also figures in histories of the Department of Finance in the era, particularly those of Robert Bryce and Robert A. Wardhaugh. All of the histories show that domestic conditions in Canada were the main reason that the government of the day decided there should be a central bank. All, however, show that the importance of international trade to the Canadian economy was a factor in the shaping of the central bank.¹⁶⁶ As well, opinions of Canadian policy-makers were influenced by international experiences and by their participation in international meetings.

Canada's ability to conduct foreign policy was also limited by the limited thinking that was devoted to foreign policy and by the smallness of its foreign policy establishment. Most

¹⁶¹ O'ram, 192.

¹⁶² Bryce, 80.

¹⁶³ Brecher, 4.

¹⁶⁴ Linda M. Grayson, *The Formation of the Bank of Canada, 1913-1938* (University of Toronto, Doctoral Dissertation, 1974); Milton L. Stokes, *The Bank of Canada: The Development and Present Position of Central Banking in Canada* (Toronto: Macmillan Co., 1939); George S. Watts, *The Bank of Canada: Origins and Early History* (Ottawa: Carleton University Press, 1993); and Douglas Fullerton, *Graham Towers and His Times* (Toronto: McClelland & Stewart, 1986).

¹⁶⁵ Robin Neill, "The Policy Significance of the Founding of the Bank of Canada," *Carleton University Economic Papers* 91-12, December 1991; Michael Bordo and Angela Redish, "Why Did the Bank of Canada Emerge in 1935?" *Journal of Economic History* Vol. 47 No. 2 (June, 1987), 405-17.

¹⁶⁶ Neil, "Bank," 18

historians see the First World War as a watershed for Canada. Before this, Canada had been acquiring some of the tools to conduct its own affairs, in part out of concern that Britain might be too willing to sacrifice Canada's interests for its own purposes, such as ensuring harmony with the United States.¹⁶⁷ The Department of External Affairs was set up in 1909.¹⁶⁸ By and large, however, Canada was content to leave the conduct of foreign affairs to the British Government. The First World War did two things to push Canada toward a more independent foreign policy. Firstly, Canadian participation in the war entitled it to a seat in the imperial councils and to a separate presence at the peace conference and subsequently in the League of Nations. Secondly, the carnage of the war made Canadians more cautious about involvement in foreign disputes. Numerous authors stress that if American policy in the inter-war period was considered isolationist, Canada's was scarcely less so. Canada continued to be attached to the Empire, but insisted on its right to decide where and in what circumstances Canada would provide resources for imperial endeavours. And, while, for example, Canada was member of the League of Nations, Canadian Governments took care to limit the ability of the League to commit Canadian forces to any foreign security operation.¹⁶⁹ In Senator Raoul Dandurand's oft-quoted remark, Canada was "a fireproof house, far from inflammable materials."¹⁷⁰ O.D. Skelton believed, "We are the safest country in the world as long as we mind our own business."¹⁷¹

¹⁶⁷ Norman Hillmer and J.L. Granatstein, *Empire to Umpire: Canada and the World to the 1990s* (Toronto: Copp Clark Longman Ltd. 1994), 2.

¹⁶⁸ John Hilliker, *Canada's Department of External Affairs Volume 1: The Early Years, 1909-1946* (Montreal and Kingston: McGill-Queen's University Press, 1990).

¹⁶⁹ James Eayrs, "'A Low, Dishonest Decade:' Aspects of Canadian External Policy, 1931-1939" in Hugh Keenleyside et al. *The Growth of Canadian Policies in External Affairs* (Durham, S.C.: Duke University Press, 1960), 61. Hillmer and Granatstein 69-70.

¹⁷⁰ Eayrs, 61 and Hillmer and Granatstein, 70.

¹⁷¹ Robert Bothwell, Ian M. Drummond and John English, *Canada, 1900-1945* (Toronto, Buffalo, London: University of Toronto Press, 1987), Bothwell, Drummond and English, 302.

Yet, there was no drive for an independent foreign policy. Indeed, the drive for more autonomy from the United Kingdom after 1925 was led not by Canada, but rather by South Africa and Ireland. Canada was content to go along.¹⁷² Within Canada, there were still strong ties to the Empire. In part, the ties were economic – the United Kingdom while it had been supplanted as Canada's most important trade and investment partner by the United States, was still important. There were strong emotional ties as well. A significant number of Canadians had close family ties to Britain. And Britishness was part of the Canadian identity. In the words of Robert Bothwell, Ian Drummond and John English; membership in the Empire conveyed a sense that "Canadians were different from and better than their neighbours."¹⁷³

There were Canadians who had begun to think more about foreign affairs. One begins to see sessions in party conferences on foreign affairs. Articles on foreign affairs begin to appear in journals such as *Queen's Quarterly* and *Canadian Forum*. In the 1920s, the Canadian Institute of International Affairs and the League of Nations Society were formed, but, quoting Robert Bothwell and Norman Hillmer, "Their membership was prestigious, but their influence on the government slight."¹⁷⁴ Bothwell notes that Canadian diplomats were seldom concerned with questions of high policy and foreign affairs dispatches do not "reveal a broad or deep grasp of the realities of the international system."¹⁷⁵

There are two reasons for this. Firstly, as the remarks of Senator Dandurand and O.D. Skelton above illustrate, Canada did not feel threatened; thus its range of interests was small and

¹⁷² Wigley, 249 and 267-68.

¹⁷³ J.L. Granatstein and Norman Hillmer, *For Better or For Worse: Canada and the United States to the 1990s* (Toronto: Copp Clark Pittman Ltd., 1991), 80.

¹⁷⁴ Robert Bothwell and Norman Hillmer, "Introduction," in Robert Bothwell and Norman Hillmer (eds.), *The In-Between Time: Canadian External Policy in the 1930s* (Toronto: Copp Clark Publishing, 1975), 12.

¹⁷⁵ Bothwell, Drummond and English, 302 and 297.

mainly directed toward economic issues.¹⁷⁶ Secondly, given the limited interest in foreign affairs in Canada and in the government, the resources devoted to it were meagre. Throughout this period, the prime minister also served as the Secretary of State for External Affairs. This meant that the person of the Prime Minister was a major determinant of foreign policy. James Eayrs writes that both Mackenzie King and Bennett:

retained a jealous hold upon the External Affairs portfolio and conducted foreign policy possessively, even stealthily, so that few of their colleagues and subordinates have been able to throw light upon the shadowy though crucial episodes; and a tradition unlike that at Westminster (where politics and literature – or politics and journalism honourably combine) assists in their concealment.¹⁷⁷

While Prime Ministers King and Bennett may have retained the hold on the external affairs portfolio, neither was anxious to exercise it. Hillmer and Granatstein quote Bennett as saying “I am Minister of External Affairs by a statute, not by choice.”¹⁷⁸ Indeed, he began his tenure with a definite bias against Canada having its own foreign policy establishment and in opposition had mused about disbanding the department. He was particularly suspicious of the Undersecretary of State, O.D. Skelton.¹⁷⁹

Canada had only three foreign legations, aside from the High Commission in London: in Washington, Paris, and Tokyo. Skelton began the process of recruiting highly capable people into the department. A contemporary assessment of the department of the time was that it was staffed by men who were “highly competent, but badly undermanned and badly overworked.”¹⁸⁰

¹⁷⁶ J.L. Granatstein, *The Ottawa Men: Civil Service Mandarins, 1935-1957* (Toronto: Oxford University Press, 1982), 35, claims that O.D. Skelton saw foreign policy as economic policy.

¹⁷⁷ James Eayrs, “‘A Low, Dishonest Decade:’ Aspects of Canadian External Policy, 1931-1939” in Hugh Keenleyside et al. *The Growth of Canadian Policies in External Affairs* (Durham, S.C.: Duke University Press, 1960), 59-60.

¹⁷⁸ Hillmer and Granatstein, *Empire to Umpire*, 102.

¹⁷⁹ Hilliker, 136-137.

¹⁸⁰ Canadian Institute of International Affairs, “Canadian Foreign Policy: Report of Discussions of the Montreal Branch of the Canadian Institute of International Affairs, 1931-1932,” *International Affairs* Vol. 12 No. 5 (September, 1933), 634.

The small size of the department led to some concern that Canada would not be capable of hosting the Imperial Economic Conference. In any event, it was the most poorly documented of the Imperial Conferences.¹⁸¹

c) The Individuals Behind the Policy

Because the machinery of state was so little developed in the interwar period in Canada, at the time that the behaviour and decisions of individuals, and in particular of the Prime Minister, mattered a great deal in the determination of foreign economic policy. Firstly, the Prime Minister also held the post of Secretary of State for External Affairs. Although foreign policy issues were not usually a big concern, when they were it was the Prime Minister whose decisions counted.¹⁸² Secondly, in the period dealt with in this thesis, the personality of the Prime Minister mattered a very great deal. Bennett was a dominating, even a domineering personality.¹⁸³ He often took decisions without consulting anyone. His views often held sway even in areas that were nominally the responsibility of another minister. H.H. Stevens, for example, was Minister of Trade and Commerce, yet according to his biographer was not successful in making his mark on Canadian trade policy; instead he repeatedly deferred to the Prime Minister.¹⁸⁴

Despite the importance of the personality of the Prime Minister, R.F. Holland, writing in the early 1980s, noted, “The lack of a good political biography of R.B. Bennett is a curious gap

¹⁸¹ Stacey, 142.

¹⁸² Nossal, Roussel and Paquin, 159-61.

¹⁸³ Ian M. Drummond, *The Floating Pound and the Sterling Area, 1931-1939* (Cambridge: Cambridge University Press, 1981), 53.

¹⁸⁴ See Richard Wilbur, *H.H. Stevens, 1878-1973* (Toronto: University of Toronto Press, 1977), 96. Wilbur writes, “Like the rest of the cabinet, Stevens seems to have been overwhelmed by Bennett’s forceful personality.”

in recent Canadian historiography.”¹⁸⁵ This was likely in part owing to the fact that Bennett destroyed much of his private correspondence. After his death, his long-time secretary, Alice Millar, also destroyed many papers and letters which she considered “unhistorical.”¹⁸⁶ Possibly, as well, Bennett was not considered an attractive enough character for a full biographical treatment.¹⁸⁷ He disliked and distrusted academics and journalists, and they largely returned the favour. The vast majority of newspapers of his day were Liberal in the editorial outlook.¹⁸⁸ Similarly, many of the emerging intellectual policy class found Bennett’s unwillingness to listen to their ideas unappealing.¹⁸⁹ It was also Bennett’s misfortune to be in power when the Great Depression reached its lowest point. Much of the material on the time has thus been, as Waite notes, “readier to denounce his failings than to measure his strengths.”¹⁹⁰

Bennett’s long-time friend Lord Beaverbrook did produce a personal memoir of Bennett in 1959, but which is, in John English’s words, “fascinating but, like its author, often unreliable.”¹⁹¹ Ernest Watkins in 1963 published what was for many years the only biography of Bennett. Though it contains much useful material, it is considered dated now.¹⁹² Two of Bennett’s close associates published memoirs of their time with him. His private secretary Rod Finlayson produced a biography that was never published.¹⁹³ The Finlayson manuscript is

¹⁸⁵ Holland, 164.

¹⁸⁶ John English, “Forward,” in John Boyko, *Bennett: The Rebel Who Challenged and Changed a Nation* (Fredericton: Goose Lane Editions, (2010) 2012), 11 and Peter B. Waite, *In Search of R.B. Bennett* (Montreal Kingston: McGill-Queen’s University Press, 2012), xii.

¹⁸⁷ Michael Bliss *Right Honourable Men: The Descent of Canadian Politics from Macdonald to Mulroney* (Toronto: Harper Perennial, 1995), 113.

¹⁸⁸ Waite, 53.

¹⁸⁹ Douglas O’ram, *The Government Generation*, 175-176.

¹⁹⁰ Waite, xiii. For an example of a scathing critique see Michael Bliss’s chapter on Bennett in

¹⁹¹ Lord Beaverbrook, *Friends: Sixty Years of Intimate Personal Relations with R.B. Bennett* (London, Melbourne, Toronto: William Heinemann Ltd., 1959) and English, 11.

¹⁹² Ernest Watkins, *R.B. Bennett: A Biography* (London: Secker and Warburg, 1963). See John English, 11.

¹⁹³ Rod F. Finlayson “Life with R.B.: That Man Bennett,” unpublished manuscript, Library and Archives Canada, Reel H1310.

valuable since after becoming private secretary in the fall of 1931 he worked closely with Bennett through most of his time as Prime Minister. One of his first assignments was to coordinate preparation of the Ottawa Imperial Economic Conference. He accompanied Bennett to key international meetings, such as the April 1933 meeting with President Roosevelt, and the World Economic Conference. Unfortunately, he never finalized the manuscript and as a result there are errors in the timing and sequence of events. Andrew MacLean, a personal secretary, published in 1935, a portrait of Bennett while he was still Prime Minister.¹⁹⁴ While generally a hagiographic treatment of Bennett, MacLean does provide an insight into some of Bennett's failings as a leader, in particular his fierce temper and his inability to get along with the press.

In the years since the Holland article, the biographical gap has been partially filled. Larry Glassford examined the politics of the Conservative Party during the eleven years that Bennett headed it, and thus included a great deal of material on Bennett's views and attitudes.¹⁹⁵ In more recent years Bennett has received two biographical treatments.¹⁹⁶ John Boyko in 2010 produced a popular biography. In 2012, Peter B. Waite published what he admits is not so much a full biography as a series of biographical *essais*. A full scholarly political biography of Bennett is, however, probably still to be written.

From the point of view of this thesis, the issues of most interest are Bennett's views concerning Canada's principal foreign interlocutors and his views on policy concerning the Great Depression. On the former, both he and the Conservative party were seen at the time as

¹⁹⁴ Andrew D. MacLean, *R.B. Bennett: Prime Minister of Canada* (Toronto: Excelsior Publishing, 1935).

¹⁹⁵ Larry A. Glassford, *Reaction and Reform: The Politics of the Conservative Party Under R.B. Bennett, 1927-1938* (Toronto: University of Toronto Press, 1992).

¹⁹⁶ John Boyko, *Bennett: The Rebel Who Challenged and Changed a Nation* (Toronto: Key Porter Books, 2010) and Peter B. Waite, *In Search of R.B. Bennett* (Montreal; Kingston: McGill-Queen's University Press, 2012).

imperialist.¹⁹⁷ Many histories written since also see Bennett as very attached to the British Empire and having little interest in an independent Canadian foreign policy. Boyko claims that he loved all things British.¹⁹⁸ Glassford, however, takes a more nuanced approach and stresses the political expediency in Bennett's approach to the Empire which was in fact not so different from Mackenzie King's attitude.¹⁹⁹ Finlayson said that Bennett's allegiance was to the Crown and certainly not to all things British. His attitude toward the United States is also subject to some disagreement. J.W. Dafoe and Waite see in Bennett a deep-seated anti-Americanism.²⁰⁰ Yet, despite his supposedly "imperial vision," he in fact began the process of negotiating freer trade with the United States.²⁰¹

Bennett's personal history also supposedly informed his views on economic policy. He had an extensive background in finance and was on the board of directors of the Royal Bank of Canada. The chapter in Blair Neatby's history of the 1930s dealing with the Bennett government is entitled "The Business Executive in Politics."²⁰² This experience certainly predisposed him toward the orthodox economic policies of the time – balanced budgets, preservation of Canada's credit rating and adherence to the gold standard. His experience in business undoubtedly also contributed to the confidence, indeed certainty, with which he made decisions almost entirely on his own. Yet, as Boyko and Waite make clear, he was quite prepared to use the government activism in the economy to achieve economic, social and cultural objectives.

¹⁹⁷ See for example, J.W. Dafoe's views as presented in Ramsay Cook, *The Politics of J.W. Dafoe and the Free Press* (Toronto: University of Toronto Press, 1936), 196-197. C.P. Stacey, *Canada and the Age of Conflict: A History of Canadian External Policies, Volume Two, 1921-1948, The Mackenzie King Era* (Toronto, Buffalo, London: University of Toronto Press, 1981), 134 talks of the Conservative Party's tendency to talk "in terms of outmoded imperial sentimentalism."

¹⁹⁸ Boyko, 225.

¹⁹⁹ Glassford, Ch. 4.

²⁰⁰ Waite, 49-50, Cook, 193.

²⁰¹ Robert Bothwell and Norman Hillmer (eds.) *The In-Between Time: Canadian External Policy in the 1930s* (Vancouver, Calgary, Toronto, Montreal: Copp Clark Publishing, 1975), 46-47.

²⁰² Neatby, Chaos, Ch. 4.

The personal experiences of key officials with whom Bennett dealt also informed Canadian foreign economic policy in the period. The literature on ideas in foreign economic policy stressed the role of recruitment of experts into government. This is true in Canada in this period. Owrarn writes of the “formation of a new reform elite” in Canada in the first half of the 1930s.²⁰³ In the early and mid-1980s there was a series of biographies of key men in the building of Canadian economic and foreign policy in the 1930s. Jack Granatstein published a biography of Norman Robertson which provides useful information on the development of the Department of External Affairs in the early 1930s.²⁰⁴ Moreover, Norman Robertson was part of the Canadian delegation to the World Economic Conference in 1933. Granatstein’s *The Ottawa Men* provides a collective biography of the key civil servants of the period.²⁰⁵ Douglas Owrarn’s *The Government Generation: Canadian Intellectuals and the State, 1900-1945* provides important intellectual background on the key figures who came into government in the 1930s and who not only advised on policy but also created the institutions of the Canadian public service.²⁰⁶ Douglas Fullerton’s biography of Graham Towers, the first Governor of the Bank of Canada, provides useful information on the considerations that led to the establishment of the Bank.²⁰⁷

Two officials in particular were to play critical roles in the development of foreign economic policy in the Bennett years, and indeed for years afterward. Oscar Douglas Skelton who was Under Secretary of External Affairs from 1925 until his death in 1941, was instrumental in building the Department of External Affairs. Among his achievements was the recruitment of men who would be critical in developing policy in Canada. One of Skelton’s

²⁰³ Owrarn, ch. 6. Granatstein, Robertson, and Ottawa Men.

²⁰⁴ J.L. Granatstein, *A Man of Influence: Norman A. Robertson and Canadian Statecraft, 1929-1968* (Ottawa: Deneau Publishers, 1981).

²⁰⁵ Granatstein, *Ottawa Men*.

²⁰⁶ Owrarn.

²⁰⁷ Douglas H. Fullerton, *Graham Towers and His Times* (Toronto: McClelland and Stewart, 1986). This was a biography commissioned by the Bank of Canada to mark the fiftieth anniversary of its opening.

principal contributions to foreign economic policy during this period was to bring William Clifford Clark into government, initially to prepare briefing material on monetary issues for the Ottawa Imperial Economic Conference. The impression he made on Bennett resulted in his subsequent appointment as the Deputy Minister of Finance, a position he held until his death in 1952.²⁰⁸ O.D. Skelton has never received a full biographical treatment, though Norman Hillmer has written several articles showing the “North American” cast of his mind and has recently edited a collection of documents pertaining to Skelton’s contributions to the development of Canadian foreign policy.²⁰⁹ Clark has received full biographical treatment by Robert Wardhaugh. The conferences dealt with in this thesis provided Clark with the opportunity to devote some thinking to monetary issues. It would not be true to say that Clark revolutionized thinking or introduced many new ideas on monetary policy during the period considered in this thesis. Perhaps his major contribution was to buttress Bennett’s decision to create a central bank.

As Owsam points out members of this “reform elite” shared a number of common experiences and outlooks. They were well-educated, with almost all possessing more than one university degree.²¹⁰ They were mainly educated at three foreign universities: the University of Chicago, Harvard University and Oxford.²¹¹ They all had memories of the war.²¹² They taught at a small number of Canadian universities. Indeed, most of the work on monetary policy in the late 1920s and early 1930s was being done at Queen’s University. A.F.W. Plumptre was an

²⁰⁸ Robert A. Wardhaugh, *Behind the Scenes: The Life and Work of William Clifford Clark* (Toronto: University of Toronto Press, 2010).

²⁰⁹ Norman Hillmer, “The Anglo-Canadian Neurosis: The Case of O.D. Skelton,” in Peter Lyon (ed.), *Britain and Canada: Survey of a Changing Relationship* (London: Cass, 1976), 61-84; Norman Hillmer, “O.D. Skelton and the North American Mind,” *International Journal* Vol. 60 No. 1 (Winter, 2004-2005), 93-110; and *O.D. Skelton: The Work of the World, 1923-1941* (Montreal and Kingston: McGill-Queen’s University Press, 2013).

²¹⁰ Owsam, 137.

²¹¹ *Ibid.*, 144-145.

²¹² *Ibid.*, 141-142.

exception, teaching at the University of Toronto.²¹³ This commonality in background had certain advantages in that they knew and were able to support each other. They were able to discuss and compare ideas. The principal disadvantage was in the very narrowness of the group. This was a male, English-Canadian elite.²¹⁴

Conclusion

The failure of statesmen to address the Great Depression in a cooperative manner represented a blow to the interwar idealist vision of a new more cooperative and more peaceful world order. The idealist vision included an international economic order built on a return to the pre-First World War regime of relatively free movement of goods and capital and an international monetary system based on the international gold standard. To realist theorists the failure of the conference would not come as a surprise. They assume that cooperation in international relations is difficult to achieve and likely to be fragile. States are driven, by the anarchic nature of the international system, to put their own interests first. In times of economic difficulty and a deteriorating security environment like the 1930s, the imperative of self-help would be felt particularly keenly.

To liberal internationalists, whose approach to international relations is in many ways similar to the idealists', the failure to re-establish the pre-war economic regime was attributable to changed circumstances. Charles Kindleberger explains the failure as the result of the lack of a hegemon willing to sacrifice short-term interests to preserve the system. Britain, which had played this role before 1914, had been weakened by the war and was no longer in a position to

²¹³ Neill, 140. The University of Toronto was more noted for its industrial organization approach to economics.

²¹⁴ Owram, 146-8.

do so. The United States, which could have played the role in the interwar years, was unwilling to. Peter Temin, Barry Eichengreen and Beth Simmons see the failure as the result of changed social and political conditions in the interwar period. Societies were no longer prepared to make balance of payments equilibrium the overriding objective of economic policy. Governments had come to the view that the maintenance of growth and high levels of employment should take precedence.

The importance of ideas or world views, is a central tenet of a third school of international relations theory, constructivism. Differing ideas about the causes of the Depression, and how to address it, as well as differing attitudes about the role of the state in the economy, would have made cooperation difficult to achieve. Ideas matter when they are taken up by leaders and governments. Thus a strain of literature looks at the importance of national leadership in international relations and the methods by which ideas get taken up. International relations theory, especially when it focuses on power, is sometimes accused of neglecting the role of small states, or states which are not powerful, in the international system. There is, however, some literature that does explore the ability of small states to exercise agency in the overall structure of the international system.

These theoretical considerations are born in mind when Canada's role in the World Economic Conference and the events leading up to it are explored in subsequent chapters. Canada was a small country, for whom the international system comprised essentially Britain and the United States. The shifting, sometimes fraught relationship between these two great powers, posed a critical foreign economic policy challenge for Canada. At the same time, Canada was one of the countries most affected by the Depression. Because of the underdeveloped state of its economic and foreign policy apparatuses, the role of key individuals

in determining policy was large. A dominant personality, such as Prime Minister Richard Bedford Bennett, was able to determine positions taken by the Canadian Government largely on his own. Canada's participation in the World Economic Conference, and the Imperial Economic Conference that preceded it, did force him to seek advice and to bring new people and ideas into government. Chief among these was William Clifford Clark.

Chapter 2

Canada First, Then the Empire

Introduction

This chapter sets the stage for the discussion of Canadian participation in the Imperial Conferences of 1930 and 1932. Several of the themes outlined in the survey of the literature in the previous chapter will be evident in the developments discussed in this chapter. The chapter begins with two sections setting the Canadian economic context and the changing context in the world economy in the early stages of the Great Depression. Canada was a major economy and a major trading nation. It was not, however, a major economic power. The Canadian economy was vulnerable, in the sense set out by Keohane and Nye, in several important respects.¹ As the international relations literature point out, economic power often rests on asymmetries in dependence.² The Canadian economy to a large extent depended on a relatively few products sold in a relatively few markets. Canadian Governments thus faced the dilemma of vulnerable states, when faced with an international environment where major powers are not providing leadership but rather aggressively protecting their own interests, as stated by Charles Kindleberger -- should they attempt to supply leadership themselves through self-denial or should they look to defend their own interests by essentially emulating the behaviour of the large powers?³

¹ Robert O. Keohane and Joseph S. Nye, *Power and Interdependence, Fourth Edition* (Boston: Longmans, 2012), 10-15 distinguish between sensitivity and vulnerability, where the latter is a measure of the extent to which an international actor can, by altering its own policies, reduce costs imposed on it by external events.

² Robert Gilpin, *Global Political Economy: Understanding the International Economic Order* (Princeton, Oxford: Princeton University Press, 2001), 80; Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley and Los Angeles: University of California Press, (1945) 1969); Robert O. Keohane and Joseph S. Nye, *Power and Interdependence*, 7-9; and Joseph S. Nye, *The Future of Power* (New York: Perseus Books, 2011), 54-55.

³ Charles P. Kindleberger, *The World in Depression, 1929-1939* 40th Anniversary Edition (Berkeley and Los Angeles: University of California Press, (1973) 2013), 162; Trygve Mathisen, *The Function of Small States in the Strategies of*

Confronting this dilemma is the responsibility of leaders of small states. With the replacement in 1930 of the Liberal government of Mackenzie King by the Conservative government of Richard Bedford Bennett, Canada's approach to the international environment changed from one of self-denial to one of emulating the large powers. The reasons for this changed approach are brought out in the next two sections. Section III deals with the debate about the Canadian response to the Smoot-Hawley tariff before the election call, while Section IV deals with the 1930 election campaign itself. The literature on leadership in foreign policy sees the leader as having three core tasks: to diagnose the situation he is confronting; to prescribe corrective policies in light of this diagnosis; and to mobilize support for these corrective policies.⁴ In a similar vein, Granatstein and Hillmer argue that a coherent vision is an important index of the effectiveness of national leaders – "Strong convictions and clear programs are an armour against doubts, of both the leader and the led."⁵ Leaders can differ both in the capabilities they have at their disposal and in their approach to problems. Bennett was a goal-driven, predominant leader in the sense defined by Margaret Hermann et al.⁶ He was in a position to determine, almost single-handedly, Canada's approach to the depression and to the role of foreign economic policy in that approach. He presented to the electorate a clear vision that the depression could be defeated and of what needed to be done to defeat it. This vision was unabashedly nationalist, an approach Bennett was to label "Canada first," but which involved

Great Powers (Oslo, Bergen, Tromsø: Universitetsforlaget, 1971); Miriam Fendus Elman, "The Foreign Policies of Small States: Challenging Neo-Realism in its Own Backyard," *British Journal of Political Science* Vol. 25 No. 2 (April, 1985), 171-217 and Iver B. Neumann and Sieglinde Gstohl, "Introduction: Lilliputians in Gulliver's World?" in Christine Ingebritsen et al. (eds.) *Small States in International Relations* (Seattle: University of Washington Press and Reykjavik: University of Iceland Press, 2006), 3-36.

⁴ Ariel Ilan Roth, *Leadership in International Relations: The Balance of Power and the Origins of World War II* (New York: Palgrave Macmillan, 2010), 9 and 48-49.

⁵ J.L. Granatstein and Norman Hillmer, *Prime Ministers: Ranking Canada's Leaders* (Toronto: Harper Collins, 1999), 1-2.

⁶ Margaret G. Hermann et al., "Who Leads Matters: The Effects of Powerful Individuals," *International Studies Review* Vol.3 No. 2 (Summer, 1981), 83-131.

increasing trade with the British Commonwealth, a forum where Bennett believed Canada did have economic leverage. The next chapter will deal with the reception Bennett received in his initial encounter with Great Britain and the other dominions. In making these arguments, this thesis will not argue that Bennett was right in his prescription for the Depression, but rather that in embracing protectionism he was running with the tide in international economic affairs. Had he been less obsessed with trade issues and more prepared to consider alternative monetary policies, he might have addressed the Depression more effectively than he did. In fact, this chapter will show that monetary policy was the missing issue in the early discussions of the response to the Great Depression.

I. Canada in 1930: Major Trader, Minor Power

In purely economic terms, the First World War and the decade of the 1920s were good years for Canada. There were periods of difficulty, particularly the deep recession of 1920-1922,⁷ but generally the Canadian economy developed rapidly – established industries grew and new industries took root and flourished. By the end of the 1920s, Canada was the fifth largest exporting nation in the world.⁸ It was the largest exporter of wheat and a leading producer of many forestry and mineral products. Staple theorists like W.A. Mackintosh and Harold Innis wrote optimistically about the development of the Canadian economy based upon the export of one or a few primary commodities to foreign markets and the ensuing linkages into manufacturing. Writing in 1922, for example, Mackintosh stated, “western wheat has permitted

⁷ The recovery from this depression took until late 1924. The “boom years” of the 1920s therefore comprise 1925-1929. John Herd Thompson, *Canada 1922-1929: Decades of Discord* (Toronto: McClelland and Stewart Ltd., 1985), 76 and Robert Bryce, *Maturing in Hard Times: Canada's Department of Finance through the Great Depression*, (Kingston, McGill-Queen's University Press, 1986), 39.

⁸ Irving Brecher, *Monetary and Fiscal Thought and Policy in Canada, 1919-1939* (Toronto: University of Toronto Press, 1957), 69. P.E. Corbett, “A Foreign Policy for Canada,” In Vincent Massey (ed.), *The Liberal Way: A Record of Opinion on Canadian Problems as Expressed and Discussed at the First Liberal Summer Conference, Port Hope, September 1933* (Toronto and Vancouver: J.M. Dent & Sons, 1933), 136.

the initial step of the Canadian advance in the twentieth century. ... The world staple primed the pump of Canadian industry.”⁹ By 1930, Canada was the seventh largest country in manufacturing production.¹⁰ Yet, when the Great Depression struck, the Canadian economy would prove to be particularly vulnerable in at least three respects.

Firstly, throughout Canadian history, economic activity was based on the export of a relatively few primary commodities, or staple products, to a relatively few foreign markets. Despite recent growth and diversification, this was still the case in 1929-1930. In the late 1920s, exports accounted for approximately 30 per cent of Canada’s Gross National Expenditure.¹¹ The largest single export product was wheat and wheat flour, which accounted for approximately 32 per cent of total Canadian exports.¹² All told, Canada exported about 70 per cent of its wheat crop.¹³ Britain was Canada’s second largest export market at the end of the 1920s, accounting for took approximately 20 per cent of total Canadian exports. It was, however, the most important market for Canadian wheat, which accounted for 50-60 per cent of Canadian exports to Great Britain.¹⁴ In the 1920s, a number of new staple industries developed rapidly. Unlike the staple products of the eighteenth and nineteenth centuries, however, the new staple exports were bound mainly for the United States. By the 1920s, the United States had surpassed Britain as Canada’s most important trading partner, accounting for approximately 40 per cent of Canadian exports. The most important of the new staples was newsprint, the production of which grew

⁹ W.A. Mackintosh, “Economic Factors in Canadian History,” *Canadian Historical Review* Vol. 4 (March, 1923), 12-25. M.H. Watkins, “A Staple Theory of Economic Growth,” in W.T. Easterbrook and M.H. Watkins (eds.), *Approaches to Canadian Economic History* (Toronto: McClelland and Stewart, 1971), 49-73, deals extensively with how the linkage effects are supposed to work.

¹⁰ William Lyon Mackenzie King, quoting from former Conservative Finance Minister Sir Thomas White, Debates of the House of Commons, 24 February 1930, 36.

¹¹ A.E. Safarian, *The Canadian Economy in the Great Depression*, Third Edition, (Montreal and Kingston: McGill-Queen’s University Press, (1959) 2009), Table 49, pp. 242-43.

¹² *Ibid.*, Table 30, p. 164.

¹³ *Ibid.*, 42 and *Canadian Historical Statistics*, Series M249 and M301.

¹⁴ Brecher, Table VII, p. 72

rapidly after the First World War. By the 1926-1929 period, newsprint, pulpwood and wood pulp accounted for about 15 per cent of Canadian exports, and 80-85 per cent of Canada's newsprint production was exported to the United States.¹⁵ Mining was another industry that grew rapidly in the 1920s. By the end of the decade, Canada was the largest producer of nickel in the world; the second largest producer of gold; the third largest producer of silver, gypsum and mica; the fourth largest producer of copper and lead and the fifth largest producer of zinc.¹⁶ The products of Canadian mines accounted for about ten per cent of Canadian exports, again mostly destined for the United States.¹⁷ A characteristic of the staples trade was that the demand for and prices of these products was highly variable and sensitive to fluctuations in international markets. Thus, as the Depression took hold, both the quantities demanded and the prices paid for Canada's principal export products declined sharply. From 1929 to 1933, Canadian exports fell 25 per cent in volume and 49 per cent in value.¹⁸ Those theorists, such as Harold Innis, who once wrote positively about the development of the national economy, now wrote pessimistically about its prospects to be able to dig itself out of the Depression. Staple growth, they feared, had become a "staple trap."¹⁹

A second source of vulnerability in the Canadian economy sprang from the very rapidity of growth of the productive capacity in some of these staple industries. Growth in Canadian productive capacity, accompanied by post-war recovery and growth in Europe, meant that by the end of the 1920s, there was considerable excess capacity in many industries both in Canada and worldwide. Wheat production in Canada, for example, had grown enormously in large measure

¹⁵ CHS Series L177, L181 and L185. and Brecher, Table V. p. 70

¹⁶ Safarian, p. 45.

¹⁷ Ibid., Table 30, p. 164.

¹⁸ Ibid., 77.

¹⁹ Harold Innis, *The Cod Fisheries: The History of an International Economy* (New Haven: Yale University Press, 1940), 11.

because of the First World War. Seeded acreage increased from four million acres in 1900, to ten million just before the war, to 18 million in 1920 and to 23 million in 1921, and fluctuated between 22 and 23 million for the rest of the decade.²⁰ At the same time, technological innovations, such as the increasing use of tractors and other farm machinery, as well as favourable weather, contributed to excellent harvests over 1925 to 1928.²¹ Thus while seeded acreage increased only 5.5 per cent in the 1926-29 period compared to the 1921-24 period, wheat production increased 22 per cent.

Nor was agriculture the only sector where there appeared to be considerable excess capacity even before the Depression. In the newsprint industry, for example, productive capacity increased more than four and a half times between 1918 and 1930, more than doubling between 1925 and 1930.²² The rate of capacity utilization peaked at 89 per cent in 1926 but fell to 75 per cent over the 1927-29 period.²³ Newsprint prices thus tended to decline through most of the 1920s.²⁴ In the rated steel industry, capacity utilization was 66 per cent in 1929.²⁵ In the automobile industry, capacity utilization peaked in 1929 at a capacity utilization rate of 66 per cent. Canadian production of copper tripled between 1923 and 1929. Production of lead increased six times over the same period, while production of nickel increased more than five times. Thus, as the demand for commodities declined in the early 1930s, investment plummeted and constituted

²⁰ Ibid., 40.

²¹ Ibid., 40.

²² CHS L176.

²³ CHS L177 and L176.

²⁴ W.A. Mackintosh, *The Economic Background of Dominion-Provincial Relations* (Toronto: McClelland and Stewart, 1964), 105.

²⁵ Safarian, 131.

an additional drag on the Canadian economy. Indeed, the investment sector was the component of gross national product that experienced the largest decline from 1929 to 1933.²⁶

A third source of vulnerability in the Canadian economy arose from the investment and cost structure that was involved in the production of its staple exports. In particular, the production and export of these products involved heavy capital expenditures and large fixed costs. Not only did expansion of the lumber, newsprint and various mining industries require investment in costly extraction and production facilities, but they also required huge investments in supporting infrastructure, such as transportation facilities and power supplies. The overbuilding of railways, for example, was a problem that plagued numerous Canadian Governments in the early 1900s including through the 1930s. Even the farming sector experienced this problem; almost 30 per cent of prairie farm debt was borrowed at fixed interest rates.²⁷ Thus, while prices Canadian producers received for their products declined sharply, their costs, particularly interest costs declined much less.

An additional complicating factor was that much of the debt was either foreign-held or payable in foreign currency. By the early 1930s, the amount of foreign investment in Canada totalled about \$6.5 billion, which amounted to approximately 37 per cent of the total stock of private investment and outstanding government bonds.²⁸ The United States had replaced Britain as the chief source of foreign investment in Canada. American investors were more inclined than their British counterparts to take an ownership stake in their Canadian investments, but

²⁶ Ibid., Table 17, 103.

²⁷ Ibid., pp. 81-82.

²⁸ Alvin H. Hansen, *Submission Made Upon Behalf of the Manitoba Government Before the Royal Commission on Dominion-Provincial Relations*, November, 1938.

portfolio investment was still significant.²⁹ From 1926 to 1930, 47 per cent of the interest on Canadian bonds and debentures was paid to foreigners. Interest paid abroad amounted to ten per cent of current account receipts from 1926 to 1930. In 1931-1933, as Canadian export receipts fell, this figure increased to 20 per cent.³⁰ A further distinguishing feature of Canadian bonded debt was that more than 55 per cent was in the form of non-callable, optional payment bonds, which entitled the bond-holder to receive payment of the bond's interest and principal in Canadian, American or British funds.³¹ Even though many of these optional payment bonds were held in Canada, they were in effect, as a result of the option feature, international securities. This feature was included in Canadian bonds to make them more attractive in international markets, and as long as exchange rates did not change, the option feature did not seem important.³² The issue of servicing Canada's debt to foreigners was to weigh heavily in discussions about what Canada could do when monetary policy and exchange rate issues were debated.

II. World Economic Environment

The international economy in which Canada participated was by the early 1930s becoming increasingly contentious. The First World War had badly disrupted international patterns of production, finance and trade. As more of its productive capacity and labour was given over to the production of war materials, Europe went from being a major producer of many

²⁹ Of the \$6.5 billion figure for total foreign investment cited above, \$4.1 billion was American, and about half of this was in the form of portfolio investment. Courtland Elliott, "The Movement of Capital: A Factor in Canadian-American Relations," in Walter W. McLaren, Albert B. Corey and Reginald G. Trotter (eds.), *Conference on Canadian-American Affairs, St. Lawrence University, Canton New York, June 17-22, 1935* (New York: Published for the Carnegie Endowment for International Peace by Ginn and Company, 1936), 69-70.

³⁰ Safarian, 81-82.

³¹ W.T.G. Hackett, "Canada's Optional Payment Bonds," *Canadian Journal of Economics and Political Science* Vol. 1 No. 2 (May 1935), 161 and Elliott, 78-79.

³² Hackett, 162-163.

commodities, one that dominated foreign markets, to being an importer. The foreign markets vacated by the European countries were often taken up by new powers. The United States, for example, was able to greatly increase its markets in Latin America. Japan became a major supplier of manufactured goods in former British markets in Latin America, in India, and indeed in Britain itself.³³ Canada, the United States, Australia, and Argentina became major suppliers of food products, particularly wheat, to Europe. In the immediate aftermath of the war, Europe continued to need to import many of the food and industrial products it had formerly produced itself.³⁴

There was, nevertheless, a short sharp depression and decline in commodity prices in the 1920-1921 period. Of more long-term significance to Canada, however, was the recovery in production in Europe and the form this recovery was to take. Production was bound to recover in Europe. Moreover, Russia, which had been a major supplier of wheat before the war, returned to the European market in 1928 and 1929.³⁵ The success of economic blockades in the war underscored the importance of self-sufficiency. The war also led to the creation of numerous new states in central and eastern Europe, all of which saw economic self-sufficiency in strategic products as desirable. As a result, barriers to trade proliferated in Europe. By 1929, every major European economy, with the exception of Britain had imposed substantial duties on wheat

³³ Barry Eichengreen, "The British Economy Between the Wars," emlab.berkeley.edu/~eichengr/research/floudjohnsonchaptersep16-03.pdf, 6.

³⁴ See Mackintosh, 89. Note the table showing major increases in acreages sown in wheat by 1922 compared to 1909-13 in Canada, the United States, Argentina and Australia, and major declines in European wheat producers.

³⁵ *Ibid.*, 110.

imports.³⁶ Even Britain, with the passage of the Wheat Act of 1932 began to subsidize its farmers.³⁷

This had several implications for Canadian agricultural exports. Firstly, expanded international production led to a weakening in prices; wheat prices began to fall in 1925.³⁸ Secondly the number of countries purchasing wheat fell, so that competition for the remaining markets became more intense and, in Canadian eyes, unfair. From 1928 to 1933, for example, Britain's share of European grain imports rose from one-third to one-half.³⁹ At the same time, the options available to British importers increased and there was increased reluctance to pay a premium for wheat from the Empire.⁴⁰ The increased international supplies of wheat made many British question whether Empire solidarity was enough to compensate for higher wheat prices.

As the Great Depression took hold after 1929, the international trading environment became even more difficult. Protectionism was one of the first measures many governments resorted to in the face of the downturn.⁴¹ The role of American protectionism has received considerable attention in the literature of the inter-war period. Often the United States has been criticized for failing to provide the leadership that might have stabilized the international system.⁴² The United States emerged from the war as the largest creditor nation, and with a claim on the world's supply of monetary gold. For the gold standard to have functioned, the United States should have maintained and championed an open international trading system to

³⁶ Ibid., 110. Netherlands, Belgium and Ireland also did not impose duties.

³⁷ R.F. Holland, "The End of the Imperial Economy: Anglo-Canadian Disengagement in the 1930s," *Journal of Imperial and Commonwealth History* Vol. 11 No. 2 (January, 1983), 171.

³⁸ CHS M228; Bryce, 45; Mackintosh, 87-89.

³⁹ Holland, 160.

⁴⁰ Ibid., 160 and 170-71.

⁴¹ Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca and London: Cornell University Press, 1986).

⁴² Kindleberger is perhaps the most famous for this charge. Earlier writers, however, such as Gustav Cassel and W.A. Mackintosh, without using the term "hegemonic stabilizer," made similar criticisms.

enable a rebalancing of the world's holdings of gold. This should have been an even more important objective given that the United States was insisting on full repayment of war debts.⁴³ Instead, with a Republican administration, Republican control of Congress through most of the 1920s, and effective farm lobbying, the thrust of American trade policy was increasingly protectionist.⁴⁴ Following the sharp fall in commodity prices during the depression of 1920-1921, Congress sharply increased tariffs with the Fordney-McCumber tariff of 1922.⁴⁵ Weakening agricultural prices later in the decade led to intensified protectionist pressures in the United States. Agricultural protection thus formed a major plank in the Republican platform in 1928 and would lead to the infamous Smoot-Hawley tariff in 1930 (see the next section).

Although protectionism and imbalances in production certainly aggravated The Great Depression, however, they did not, in the view of most modern economists, cause it. Among economic historians now the consensus view is that the Great Depression was an international phenomenon, not something that affected economies in isolation. The mechanism that linked the economies of so many countries was the international gold standard. The explanation for the depth of the Depression thus lies with the operation of the gold standard. The real difficulties, in this view, began around the middle of 1928, when the United States and France began to accumulate massive stocks of gold at the expense of the rest of the world.⁴⁶

⁴³ Gustav Cassel, *The Crisis in the World's Monetary System: Being the Rhodes Memorial Lectures Delivered in Trinity Term 1932* (Oxford: Clarendon Press, 1932), 65-67, stresses the importance of these payments in the balance of payments disequilibria in the interwar period.

⁴⁴ Kathleen Burk, "The Lineaments of Foreign Policy: The United States and a 'New World Order,' 1919-1939," *Journal of American Studies* Vol. 26 No. 3 (December, 1992), 377-391; Jeff Frieden, "Sectoral Conflict and Foreign Economic Policy, 1914-1940," *International Organization* Vol. 42 No. 1 (Winter, 1988), 59-90; and Marc Hayford and Carl A. Pasurka, "The Political Economy of the Fordney-McCumber and Smoot-Hawley Tariff Acts," *Explorations in Economic History*, Vol. 29 (1992), 30-50..

⁴⁵ See Hayford and Pasurka, 31.

⁴⁶ For modern statements of this position, see Peter Temin, *Lessons from the Great Depression: The Lionel Robbins Lectures for 1989* (Cambridge, Mass.: MIT Press, 1989); Barry Eichengreen and Peter Temin, "The Gold Standard

During the war almost every major country had found it necessary to suspend the gold standard. Canada suspended the gold standard on August 1914. The war period had seen inflation arising from the use of paper money to finance the war effort. The early post-war period also saw inflation, indeed, hyper-inflation, in some countries that continued to use paper money. Most statesmen believed that restoration of the international gold standard was necessary to rescue the international economy from, as Gustav Cassel said, “the hopeless muddle of the present paper-money system.”⁴⁷ The merit of the gold standard system was supposed to be two-fold. Firstly, it imposed discipline on governments by removing control of the money supply from the hands of politicians. The value of money would be preserved by the ability of the population to convert paper into something real or tangible, the supply of which was beyond the control of governments.⁴⁸ Secondly, by more or less automatically regulating national money supplies, the gold standard was supposed automatically to act to eliminate balance of payments disequilibria.⁴⁹

An international conference at Genoa in 1922 therefore called for countries to return to the gold standard as soon as circumstances permitted at either pre-war or new parities.⁵⁰ By the second half of the 1920s, most major countries had returned to the gold standard. In some cases, such as the United States, Britain and Japan,⁵¹ they returned at pre-war parities. In other cases,

and the Great Depression,” *Cotemporary European History* Vol. 9 No. 2 (July, 2000), 183-207; Harold James, “Financial Flows Across Frontiers During the Interwar Depression,” *Economic History Review* Vol. 45 No. 3 (1992), 594-613; Douglas A. Irwin “Anticipating the Great Depression: Gustav Cassel’s Analysis of the Interwar Gold Standard,” National Bureau of Economic Research Working Paper 17597, November 2011; and Douglas A. Irwin, “Did France Cause the Great Depression?,” National Bureau of Economic Research Working Paper 16350, September 2010.

⁴⁷ Gustav Cassel, *The Downfall of the Gold Standard* (London: Frank Cass & Co., 1936), 22.

⁴⁸ Cassel, *Downfall*, 15; Eichengreen and Temin, 186-187.

⁴⁹ Gustav Cassel, *Crisis in the World’s Monetary System*, Ch. 1, refutes this claim for the gold standard.

⁵⁰ Cassel, *Downfall*, 28-31.

⁵¹ Japan in the fall of 1929 was the last major country to return to the gold standard

notably France and Germany, they returned at much lower parities, in effect devaluing their currencies compared to pre-war levels.

For the gold standard to function, however, four conditions are required: first, central banks of creditor countries must be willing to allow gold reserves to circulate – they must not attempt to hoard gold; second, the world trading system must be open to enable balance of payments adjustment to take place smoothly; third, policymakers must assign priority to maintaining balance in their external accounts over domestic conditions and to exchange rate stability over domestic price stability; and fourth, supplementary international finance should be provided in the event of balance of payments or currency crises.⁵²

The central banks of France and the United States have been criticized for the extent to which they hoarded gold, particularly in the crucial 1928-1932 period.⁵³ By 1932, these two countries were the major creditors and held sixty per cent of the world's monetary gold.⁵⁴ From 1925 to 1928, the United States did allow a gold outflow as American financial institutions lent in Germany and central Europe. The Federal Reserve also maintained low interest rates through 1927 in an attempt to help Britain stay on the gold standard. France accumulated moderate amounts of gold over this period. The situation, however, changed in 1928. France officially returned to the gold standard in 1928, but at an undervalued exchange rate so that it began to accumulate gold at a rapid rate.⁵⁵ Also in 1928, the Federal Reserve, alarmed at speculation in the American stock market began to raise interest rates. American lending to Europe then dropped sharply, and gold began to flow into the United States as international investors

⁵² Cassel, *Downfall*, 23 and Beth Simmons, *Who Adjusts?: Domestic Sources of Economic Policy During the Interwar Years* (Princeton: Princeton University Press, 1994), 4.

⁵³ Irwin, "Did France Cause the Great Depression?"

⁵⁴ Temin, 20.

⁵⁵ Cassel, *Crisis*, 70; Irwin, "Anticipations," 2-3, Temin, 19-26, and Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919-1939* (New York and Oxford: Oxford University Press, 1995), 12-19.

purchased American financial assets. What should have happened is that France and the United States should have allowed a monetary expansion and an increase in inflation, which would have allowed deficit countries to gain competitiveness. In fact, however, the central banks of France and the United States largely sterilized the gold inflows. The result of the operation of the gold system was to impart a deflationary bias in the Atlantic community.⁵⁶ As a result, production began to fall in 1928 in Germany and in early 1929 in the United States and many other countries. The stock market crash in the fall of 1929 was, according to this interpretation, a result of the tightening and thus an accompanying effect of the depression rather than the cause.

An open world trading system would have facilitated the redistribution of the supply of monetary gold. As was seen earlier, the world trading system in the 1920s and early 1930s was not open. Again, the United States and France have come in for particular criticism for enacting trade restrictions which increased the difficulty of countries attempting to repay war loans and reparations.⁵⁷ Debt forgiveness might have been another way to relieve the financial burden placed on Europe. This was advocated by Cassel, Keynes and others.⁵⁸ Financial interests in the United States were generally sympathetic to this as well. Politically, however, forgiveness of war debts was impossible.

Economic historians such as Barry Eichengreen and Beth Simmons have noted that an essential feature of the pre-First World War gold standard was the readiness of central banks to cooperate at critical times to manage payments crises.⁵⁹ In the interwar period, the record of central bank cooperation was spottier. There were instances when central banks did try to shore

⁵⁶ Temin 25.

⁵⁷ See, for example, Cassel, *Crisis*, 70.

⁵⁸ For a sample of some of this literature, see Irwin, "Did France Cause," 35-38.

⁵⁹ Barry Eichengreen, *Golden Fetters*, 7-8 and Simmons, 29-30.

up the system with emergency loans. Britain, for example, was able to arrange \$900 million of financing from the Banque de France and the Federal Reserve in the summer of 1931 in its attempt to defend sterling. At other times, however, cooperation was not forthcoming. The French Government and the Banque de France, for example, have been accused of failures to cooperate, and indeed of even trying to use their gold reserves as a political weapon, during the events leading up to the crises of the summer of 1931.⁶⁰

More fundamentally, however, to an extent that few people recognized, the conditions which had enabled the gold standard to function in the pre-war period no longer existed. The successful operation of the gold system requires that people believe the monetary authorities can and will make a defence of the exchange rate a priority over domestic economic conditions. Increasing unionization of the labour force, for example, increased resistance to deflationary policies that were sometimes necessary to establish equilibrium in the balance of payments. At the same time, changed political circumstances as reflected in a broader voter franchise and the rise of mass political parties made it less likely that governments would defend an exchange rate parity at any cost. The decision by Britain in 1925 to return to the gold standard at its pre-war parity resulted in sustained high unemployment and increased social unrest, culminating in the 1926 general strike. Japan too saw social unrest increase as it established the conditions necessary for a return to pre-war parity. As a result, countries became vulnerable to short-term capital flight.

⁶⁰ Irwin, "Did France Cause," 19-20.

III. Smoot-Hawley and Canada's Turn to Empire

The debate in Canada on foreign economic policy in 1928-1930 was almost exclusively about trade and was precipitated by actions taken in the United States. Ironically, significant and far-reaching changes were taking place in the international and Canadian monetary systems at this time, again precipitated largely by the United States, but they went largely unnoticed and were not major issues in the 1930 election or in the Imperial Conference that followed close on its heels.

The trade debate arose from the introduction in Congress in mid-1929 of legislation that led eventually to the Smoot-Hawley tariff. Weakening agricultural prices in the latter half of the 1920s had led to intensified protectionist pressures in the United States. Agricultural protection thus formed a major plank in the Republican platform in 1928. In his speech accepting the Republican nomination for the presidency, Herbert Hoover declared, "An adequate tariff is the foundation of farm relief."⁶¹ The Smoot-Hawley tariff was not an exercise of economic power per se – it was not designed to force Canada or anyone else to change its policies. Indeed, President Hoover seems to have believed that Canadian behaviour would not change and that American sales to Canada would continue to increase.⁶² Nor was the tariff aimed at Canada in particular, although as Canada was America's largest trading partner, it was particularly affected. In his message to Congress, Hoover attributed a good part of the problems of American agriculture to the "growth of competition from countries that enjoy cheaper labor or more nearly

⁶¹ Richard N. Kottman, "Herbert Hoover and the Smoot-Hawley Tariff: Canada, A Case Study," *Journal of American History*, Vol. 62 No. 3 (December, 1975), 615.

⁶² *Ibid.*, 613 and Peter Kasurak, "American Foreign Policy Officials and Canada, 1927-1941: A Look Through Bureaucratic Glasses," *International Journal*, Vol. 32 No. 3 (Summer, 1977), 549.

virgin soils.”⁶³ While this did apply to Canada, it applied as well to Argentina and Australia, two other countries that had become major agricultural exporters since the war. Jacob Viner, the University of Chicago economist and adviser to the Roosevelt administration, while noting that trade barriers between Canada and the United States had been on a rising trend since the Civil War, said that the trend was general and “in no sense been the result of a special aversion to trade with Canada.”⁶⁴

Rather, the push behind the American trade bill was almost exclusively domestic. Jeff Frieden and Kathleen Burk argue that American foreign economic policy in the interwar period reflected an ongoing struggle in the United States between internationalist and isolationist interests.⁶⁵ The struggle played out across industries, with the financial sector being more internationalist while the agricultural sector was protectionist; across branches of government and governmental agencies, with the Federal Reserve tending to be more internationalist, while Congress tended to be protectionist; across government departments, with the State Department favouring openness while the Commerce Department favoured a mercantilist approach; and even within departments and administrations, with Ottawa-based State and Commerce Department officials more sympathetic to Canadian concerns than Washington-based officials.⁶⁶ Through

⁶³ Quoted in Judith McDonald, Anthony Patrick O’Brien and Colleen Callahan, “Trade Wars: Canada’s Reaction to the Smoot-Hawley Tariff,” *Journal of Economic History*, Vol. 57 No. 4 (December, 1987), 808.

⁶⁴ Jacob Viner, “The American Tariff-Bargaining Program and Canadian-American Tariff Relations,” in Walter W. McLaren, Alfred B. Corey and Reginald G. Trotter (eds.) *Conference on Canadian-American Affairs*, St. Lawrence University, Canton, New York, June 17-22, 1935 Published for the Carnegie Endowment for International Peace by Ginn & Co., 1936), 27.

⁶⁵ Jeff Frieden, “Sectoral Conflict” and Kathleen Burk “Lineaments”

⁶⁶ On the difference between Ottawa-based and Washington-based staffs of the State and Commerce Departments, see Kasurak, 551-553.

the 1920s and early 1930s, isolationist interests generally had the upper hand.⁶⁷ In the case of tariff policy, the farm lobby was particularly influential.⁶⁸

One of President Hoover's first actions after his inauguration was to convene a special session of Congress to make good on his campaign pledge. The House of Representatives Ways and Means Committee took up the bill in early May 1929. The process and the time taken between the introduction of a bill and final signature by the President can be long and complex, affording interest groups plenty of opportunity to try to influence the final shape of the legislation. The tariff bill passed the Ways and Means Committee and the full House of Representatives before the end of May 1929. The Senate took considerably longer to consider a bill, and had not passed a bill before the end of the year, giving rise to hopes in Canada, particularly among Liberals and their supporters that a trade bill would not pass.⁶⁹ The onset of the depression in the fall of 1929, however, put paid to those hopes. In January 1930, Vincent Massey, the Canadian Minister in Washington, advised Prime Minister King that the Senate would pass a bill increasing tariffs, owing in large part to the nervousness created by the stock market crash of October.⁷⁰ The Senate did pass a tariff bill on 24 March 1930 that was if anything more restrictive than the House version. Not only were many tariff rates raised more, but softwood lumber was added to the list of protected goods. A House-Senate Conference Committee agreed on a bill in April 1930, and the final legislation was passed by the Senate on 14 June 1930. President Hoover signed the bill into law on 17 June.

⁶⁷ Frieden, 59.

⁶⁸ Hayford and Pasurka.

⁶⁹ "Empire Wares May Replace U.S. Goods, Premier King Hints," *Globe*, 2 November 1929.

⁷⁰ Kottman, "Herbert Hoover," 628.

The measure came as a shock to most Canadians, especially to those who favoured free trade. While exports were a larger share of Canadian output than American, they were not negligible in the United States, and Canadians were, after all, major customers of American goods, such as farm machinery.⁷¹ As well, American industries required raw materials from Canada and thus were themselves vulnerable to disruptions in trade. Mackenzie King was a free trader by inclination himself. He also saw political advantage in lower tariffs, in that they would attract support from western Progressive and agrarian interests. Liberal Government budgets thus included limited tariff reductions in 1922 and 1923, and more substantial reductions in 1924, even though the United States had implemented the Fordney-McCumber tariff of 1922.⁷²

Canadian reaction in 1929-1930, however, was to be different than in 1922-1924. The Fordney-McCumber tariff had been widely seen as a reversal of the exceptionally generous Underwood tariff of 1914 and thus a return more or less to normal times.⁷³ Smoot-Hawley, on the other hand, took rates to their highest levels in history and seemed particularly injurious to Canada. The King Government's response to the initial proposal was to wait to see what the United States would actually do and to avoid provoking protectionist forces in the United States. The March 1929 Liberal budget took no action against the United States. In a speech in defence of the budget on 9 April 1929, King said that his government would respond to each situation as it arose. In answer to Conservative calls for a more robust response, King said, "But may I say to my hon. friends opposite, it is not a red-blooded attitude that is needed at the present moment

⁷¹ Kottman, *Diplomatic Relations*, 151 and 169.

⁷² McDonald et al. 804.

⁷³ Ibid., 804. American tariff rates under the Fordney-McCumber tariff were still slightly lower than under the tariff that had prevailed up to 1914. See Michael Hart, *A Trading Nation: Canadian Trade Policy from Colonialism to Globalization* (Vancouver: University of British Columbia Press, 2002), 114.

so much as a cool-headed attitude.”⁷⁴ King said that so successful was the Liberals’ overall management of the economy, that “an imaginary tariff war” with the United States was the only issue with which the Conservatives to attack the government.⁷⁵

In a major speech in Winnipeg on 1 November 1929, when the tariff bill had passed the House but was still before the Senate, King again defended his “cool-headed” approach, especially as no one at that point knew what the final legislation would look like. King even speculated that the Senate might never pass the bill, or that if it did, the President would not sign it.⁷⁶ Meanwhile, Canadian concerns were being conveyed to the United States through the press and numerous private channels. The bill was a subject of frequent – and in the view of William Phillips, the American Minister in Ottawa, exaggerated -- commentary in the Canadian press, with Conservative papers taking a more aggressive stance.⁷⁷ At the same time, King assured his listeners that the government had made and would continue to make its concerns known to the American administration through the Legations.⁷⁸ In fact, King had met Phillips on several occasions since November 1928 and clearly conveyed the message that if the United States passed the Smoot-Hawley tariff, he would be forced politically to retaliate, however reluctant he might be personally.⁷⁹ Canada would have to become more reliant on intra-Empire trade.⁸⁰ In a

⁷⁴ Commons Debates, 9 April 1929, 1404.

⁷⁵ See Commons Debates, 9 April 1929, 1404 and “Empire Wares” *Globe*, 2 November 1929, 1.

⁷⁶ “Empire Wares,” *Globe*, 2 November 1929, 1.

⁷⁷ Kottman, *Diplomatic Relations*, 165-167 contains several examples. William Phillips, *Ventures in Diplomacy* (London: John Murray, 1955), 68.

⁷⁸ “Empire Wares,” *Globe*, 2 November 1929, 1.

⁷⁹ Kottman *Diplomatic Relations*, deals with the messages that Phillips and other members of the legation conveyed to Washington.

⁸⁰ Kottman, “Herbert Hoover,” 625.

meeting with Phillips on 28 February 1929, King was quite specific that retaliation would take the form of increased tariffs on American goods and reduced tariffs on British Empire goods.⁸¹

The various warnings did have some effect on at least some sections of American opinion. Some sectors of the American economy were worried about the possible impact of protectionist legislation. Fear of losing access to cheap supplies of Canadian newsprint, for example, was a factor in most American newspapers opposing the Smoot-Hawley tariff.⁸² There were voices in both the State and Commerce Departments who feared that Britain was trying to forge its empire into an economic entity that would dominate world trade and that the Smoot-Hawley tariff would further this aim.⁸³ Nor was this fear confined to the Commerce and State Departments; in the spring of 1930, for example, the *New York World* editorialized that the bill served mainly “to inject an element of bitterness into our relations with a good neighbor and to drive her into close association with our keenest rival for international trade.”⁸⁴

In his 1 November speech, King too held out the prospect, or veiled threat, of closer economic association with the British Empire at the expense of the United States:

If the United States, or any other country, does not want to trade with Canada, except on unequal terms, then surely we can look as never before to the rest of the world, and particularly to the rest of the British Empire. ... Possible US tariff increases brought home to component parts of the British Empire the wisdom of securing, within the Empire itself, with regard to any and every eventuality, as large a measure of intra-Imperial trade as may be possible. There seems little doubt that Empire producers can supply vast quantities of goods now produced in the United States.⁸⁵

⁸¹ Kottman, *Diplomatic Relations*, 159-160.

⁸² Kottman, “Herbert Hoover,” 632, cites a poll taken by the *North American Review* that showed 75 per cent of American newspaper editors opposed to the Smoot-Hawley tariff. See also Stephen Scheinberg, “Invitation to Empire: Tariffs and the American Economic Expansion in Canada,” *Business History Review* Vol. 47 No. 2 (Summer, 1973), 226.

⁸³ Kasurak, 548.

⁸⁴ Kottman, “Herbert Hoover,” 631.

⁸⁵ “Empire Wares,” *Globe*, 2 November 1929, 1.

Phillips was sympathetic to the Canadian concerns and passed on the messages.⁸⁶ In fact, the American trade actions appear to have been a source of some frustration for Phillips. From his position in Ottawa he and his colleagues at the Legation detected in Canada a feeling of increasing autonomy from Britain and from its British past.⁸⁷ The time therefore seemed ripe for a North American partnership.⁸⁸ Another report from the Legation in March 1929 said that since there was not much difference between the programs of the Liberal and Conservative parties on most issues, American trade actions would become an important factor in the next Canadian election.⁸⁹

There was thus no reason that the American administration and Congress should not or could not have known about Canadian objections to the Smoot-Hawley tariff. Nevertheless, Hoover's decision to implement Smoot-Hawley is readily understandable in terms of international political economy theory and asymmetrical dependence. Trade was not as important to the American economy as it was to the Canadian. Hoover thus did not see cooperation with Canada as a particular necessity.⁹⁰ Nor did he fear retaliation; he had been Commerce Secretary in the Harding and Coolidge administrations and had seen that imposition of the Fordney-McCumber tariff in 1922 did not bring retaliation from Canada. Indeed, the King government in the early 1920s lowered tariffs and sales of American products in Canada grew.⁹¹ In his memoirs, Phillips relates a telling anecdote about his efforts to bring Canadian concerns to the attention of policy-makers in Washington. The day before Hoover's inauguration, Phillips

⁸⁶ See Kottman, "Diplomatic Relations," Kasurak and McDonald et al.

⁸⁷ Kottman, *Diplomatic Relations*, 154. Phillips made this observation in report on 14 December 1928.

⁸⁸ Ibid., 155 and Kasurak, 549-550.

⁸⁹ Kottman, *Diplomatic Relations*, 161.

⁹⁰ Kasurak, 549. J.L. Granatstein and Norman Hillmer, *For Better or Worse: Canada and the United States to the 1990s* (Toronto: Copp Clark Pittman Ltd., 1991), 100 argue that Hoover's choice of "Republican war horses" as ambassadors also indicates the extent to which he did not care about good relations with Canada.

⁹¹ Kottman, *Herbert Hoover*, 613.

met with him to explain “the danger of the situation.” If the tariff legislation went through, Phillips predicted, the Conservatives would win the next election in Canada “on a wave of bitterness against the United States” and would impose prohibitive tariffs. “To my dismay, the President-elect expressed no concern, although he indicated that, if I desired, I could discuss the situation with members of the Ways and Means Committee.” The meeting with members of the Ways and Means Committee went, if anything, worse. After having to find an atlas to show the Congressmen where the various Canadian provinces were, “[t]he members of the committee listened politely and thanked me for my trouble. They added, to my astonishment, that they were not really interested in my problem because they were not concerned with American exports, but only with the prevention of imports into the United States.”⁹²

The prospect of more restrictive American tariff legislation provided Bennett and the Conservatives with an opening for an all-out attack on Liberal trade policy. The policy of meeting each situation as it arose, they charged, was a failure of statesmanship. Canada needed a long-term strategy that reflected the world situation in which Canada found itself. In matters of trade, Bennett adhered to a model easily recognized by realist theorists in international relations. While military security was not an issue for Bennett, economic development was seen as a competition in which it was the duty of governments to defend their national economic interests.

The real issue that faces Canada to-day is whether we shall depend on other countries, depend for butter, for farm products, for meats, for fruit, for vegetables, for manufactured goods such as machinery and so forth, upon a foreign people whose supreme object in life is to support their own interests and prosperity regardless of what happens to us?⁹³

In a world where other countries looked out for their own industries, the Liberal government was naively throwing its markets open to others, especially the United States: “the

⁹² Phillips, 156-157, also includes this anecdote, calling it “a most interesting, and in many ways a most appalling experience.”

⁹³ Commons Debates, 11 June 1929, 3541.

[Liberal] administration invites the abandonment by the Canadian people of their own markets in favour of our great and powerful neighbour to the south.”⁹⁴

Nor was the United States the only country protecting its domestic industries. After noting that numerous European countries imposed prohibitive duties on Canadian wheat, Bennett asked in February 1930,

Did the hon. gentlemen opposite see the despatch in the press yesterday indicating the 18,000,000 bushels of wheat were now available in France to market in Great Britain in competition with Canadian wheat? What did the government do about that? What did the government do when France increased the duty on Canadian wheat to fifty-three cents a bushel? Did they in any respect touch the French tariff or raise the duty on French goods? No. The only answer the government have is: We pay the minimum duty on our goods entering France.⁹⁵

In an attack on Liberal policy in June 1929, Bennett accused the Liberals of naiveté in playing the good internationalist

We did that to such an extent that our representative at the League of Nations stood up and spoke proudly about Canadian leading the world in reducing tariffs; we did it to such an extent that the Minister of Justice referred to it proudly a few days ago, and various extremists throughout the world have been lauding Canada as leading the world in reducing tariffs or tolls on imports which in effect has enabled those who do not offer to us facilities to trade in their markets to come in and dispossess our markets from our own people.⁹⁶

By contrast, the Conservative policy would be to promote Canadian development through preferential trading arrangements with the British Empire. Even these arrangements would be concluded with an eye for Canadian advantage:

...we invite all lovers of Canada, all men and women who believe in their country, as I believe in it, *as distinguished from those who believe in internationalism*, all those who

⁹⁴ Commons Debates, 11 June 1929, 3537.

⁹⁵ Commons Debates, 24 February 1930, 20. He is referring to a trade treaty with France which accorded Canada “most favoured nation” status, but did not prevent France from raising its “most favoured nation” tariff rate. The increase in the tariff on Canadian wheat to fifty-three cents a bushel was the third increase the French Government had implemented under this treaty. Commons Debates, 11 June 1929, 3542.

⁹⁶ Commons Debates, 11 June 1929, 3537.

love Canada as a nation and a people and who believe that if we would only do what I suggested in the opening days of this session, that is, call here at Ottawa an economic conference of the British Empire, we could work out, *not by blanket preferences*, which have brought such disaster to this country, but by a consideration of the production of various parts of the British Empire, a scheme of preferences which will do good to all and harm to none. [My emphasis]⁹⁷

Deliberate government policy was required to shape the character of industrial development. The American tariff legislation was particularly pernicious, in Bennett's view, not only because the proposed rates would be prohibitive for many Canadian industries, but because the list of goods that would not be dutiable included raw materials. Canada would therefore be limited to being a supplier of unprocessed materials to the United States. Bennett therefore harkened back to the National Policy, proposing to take measures to ensure more manufacturing and processing of materials in Canada.

How can this be done? It may be done by tariffs; it may be done by excise taxes, by drawbacks, by bounties or by preferences; all are available to the government. There is some talk of an extra session of parliament. We who sit here have declared that we are ready and willing, and have been ready and willing since the inception of this menace to our economic life, to remain here so long as may be necessary in order that Canada may make it clear to all the world that we are hewers of wood and drawers of water for no nation, that we will develop our own resources and that no one may with impunity strike a blow at the economic life of this country, aimed directly at prohibiting our having access to the markets of the great republic, without our taking notice of the fact. *We seek no retaliation*; that is not the policy of any party in this country. The policy of this party, which has been declared from time immemorial, is a policy of developing Canada for Canadians ...⁹⁸ [My emphasis]

The passage is noteworthy in that while it is advocating measures in response to American policy, Bennett denies he is acting in retaliation. Elsewhere he had said, "We are not advocating legislation against anyone; what we are asking for is legislation for Canada."⁹⁹ Indeed, Kottman notes, from June 1929 to August 1932, there was no talk of retaliation by either

⁹⁷ Commons Debates, 11 June 1929, 3548.

⁹⁸ Commons Debates, 11 June 1929, 3547.

⁹⁹ Commons Debates, 24 February 1930, 27.

the Liberal or Conservative governments, though both took retaliatory action.¹⁰⁰ Rather, Bennett casts his policy as one that recognized the reality of industrial development in a competitive world, one where each government looked out for the interests of its own citizens. This approach would be made even more explicit in the 1930 election.

IV. “Blasting Our Way Into World Markets”

The 28 July 1930 federal election was noteworthy in several respects. It was the first election campaign in which radio played a major role.¹⁰¹ It was an election where party organization, particularly the Conservatives’ organization and the Liberals’ lack of it has received much attention.¹⁰² By the time the election was called in May 1930, it was clear that there would be an American trade bill – the “imaginary tariff war” that King had accused the Conservatives of wanting to fight was now a reality. The issue that decided the election, however, was how to combat the Depression which had settled on the world and Canadian economies the year before.¹⁰³ By the summer of 1930, unemployment had risen sharply everywhere in Canada, but especially on the Prairies, which were badly affected by the collapse in the world wheat market. Essentially, Prime Minister Mackenzie King and the Liberals underestimated the severity of the Depression, and thus offered very much a stay-the-course program to address it. King thought it safe to run on his government’s record. By contrast, R.B. Bennett, while he may not have understood the root causes of the depression, did see that unemployment would be the major issue of the campaign and proposed a sharp break from

¹⁰⁰ Kottman, *Diplomatic Relations*, 178.

¹⁰¹ Larry A. Glassford, *Reaction and Reform: The Politics of the Conservative Party Under R.B. Bennett, 1927-1938* (Toronto: University of Toronto Press, 1992), 79. Both leaders made their opening campaign speeches and platform announcements in nationally broadcast radio addresses.

¹⁰² *Ibid.*, 83-84; and Bob Plamondon, *Blue Thunder: The Truth About Conservatives from Macdonald to Harper* (Toronto: Key Porter, 2009), 155-158.

¹⁰³ Glassford, 77 and John Boyko, *Bennett: The Rebel Who Challenged and Changed a Nation* (Fredericton: Goose Lane Editions, (2010) 2012), 198.

recent policies to deal with it. Whereas King's speeches were filled with self-congratulatory rhetoric about his government's record, Bennett declared, "I never in my life saw such unemployment in this Canada of ours as in this year of 1930."¹⁰⁴ Early in the campaign, he told a Calgary audience, "This is a new country and there is no excuse for unemployment in Canada if a government does its duty."¹⁰⁵

Mackenzie King appeared never to really grasp how serious the unemployment issue had become. Even before the election was called, he had put his party in a difficult position when in a debate on unemployment relief in April 1930, he declared his government would not give one nickel to a Conservative provincial government. Rod Finlayson, who would later become R.B. Bennett's personal secretary, would, in his memoir, call this "one of the all-time boners ever committed by a Leader in the Anglo-Saxon world."¹⁰⁶ Shortly after the campaign began King wrote in his diary:

Bennett is seeking to make unemployment the issue, but is going too far in talking of calling a special session of prlt. etc. Labour is not likely to be deceived, and the men who are working are not going to worry particularly over some of those who are not, though the cuts in staffs & wages will have their effect.¹⁰⁷

King's failure to see how serious the depression was is understandable to some extent given the historic rhythm of the Canadian business cycle. It was not clear how serious the situation would eventually become. Business cycles, after all, were a recurring feature of capitalist economies. According to the National Bureau of Economic Research, for example, the

¹⁰⁴ "1,500 Unemployed Hear Mr. Bennett In Regina Speech," *Globe*, 11 June 1930, 1. from a Bennett speech in Regina on the second day of the campaign. To emphasize the point, event organizers had invited 1500 unemployed to hear the speech.

¹⁰⁵ *Calgary Herald* June 12, 1930, read into the Parliamentary record by Mackenzie King. Commons Debates, 9 September 1930, 24.

¹⁰⁶ Rod K. Finlayson, "Life with R.B.: That Man Bennett," unpublished memoir, Library and Archives Canada, Rod Finlayson Papers, Microfilm Reel 1310, 54.

¹⁰⁷ King Diary, 14 June 1930.

United States suffered eight cyclical contractions from 1900 to 1929, of which five lasted at least eighteen months.¹⁰⁸ The depression of January 1920 to July 1921 was particularly sharp in terms of the decline in output, employment and prices. James Gray, writing of his experience on the Canadian prairies in the 1930s, recalls four “major depressions” in the thirty years preceding what became known as the Great Depression.¹⁰⁹ Thus, the onset of the depression in 1929 initially occasioned no great alarm. The stock market crash of October 1929 may have been spectacular, but in the immediate aftermath there was little reason to believe that depression that followed would be greatly different from cycles that had come before. Predictions of a quick return to growth and prosperity were common. In the debate on the Speech from the Throne in February 1930, King was able to quote Sir Herbert Holt, president of the Royal Bank:

The strength of the business structure is such that there is no reason to look forward to more than a moderate recession in 1930 ... Employment and wages are being maintained at a relatively high level, the improvement in industrial efficiency has continued and the financial position of industry is excellent, both because of large liquid reserves and satisfactory profits during the last year. Such conditions warrant optimism.¹¹⁰

In a similar vein, Sir Charles Gordon, president of the Bank of Montreal, told his shareholders in December 1929:

... may I say there never was a time in the history of Canada when business as a whole has been at a higher peak than during the year under review, or when the developed resources of our wealth were more wide and varied than they are today, and never a time when the earning power of our people was sustained in so many channels of production. We must not allow a possible temporary reaction, the result of a collapse in a speculative orgy in the stock markets, unduly distort our view. Fundamental conditions are sound, and there is no reason for apprehension as to the future of Canada.¹¹¹

The surest path to recovery in the view of most policy-makers and commentators lay, as it had in the past, in policies of financial and fiscal rectitude in order to promote a return of

¹⁰⁸ See nber.org/cycles.html.

¹⁰⁹ James H. Gray, *The Winter Years: The Depression on the Prairies* (Toronto: Macmillan of Canada, 1976), 14.

¹¹⁰ Commons Debates, 24 February 1930, p. 36.

¹¹¹ Commons Debates, 24 February 1930, p. 36.

investor confidence. To the extent that action to address the economic slump was required, it would be action to expand trade. The problem was, however, trade with whom? At the beginning of the election campaign, the long-dreaded Smoot-Hawley tariff was signed into law in the United States. An already hostile international trade environment became even more so. Over the next year, Cuba, Mexico, France, Italy, Spain, India, Peru, Argentina, Brazil, China, Italy, and Lithuania, among others, imposed or raised tariffs.¹¹²

Almost by default, therefore, the British Empire was seen as the only realistic possibility for expanded markets for Canadian goods, especially wheat. Both political parties therefore made expanding intra-empire trade by means of imperial preference the cornerstone of their electoral programs in 1930. An Imperial Conference which was scheduled for September 1930 provided the opportunity to make imperial trade a key election issue.¹¹³ King justified his calling of an election in July 1930, fourteen months before he had to, as the necessity to seek a mandate to represent the people of Canada: “When we go to the Conference of 1930, we want to go as we went to the Conferences in 1923 and 1926, with the voice of Canada behind us, and with all the influence and power which comes from the voice of the nation as a whole.”¹¹⁴ Bennett too wanted an election on the issue:

We have been told that this ministry is to go to London to attend an economic conference, this ministry which had only forty-three per cent of the votes of the people of this country at the last election, this ministry which has never had a majority of Canadian electors vote

¹¹² William A. Brown, *The International Gold Standard Reinterpreted, 1914-1934* (New York: National Bureau of Economic Research, 1940), 1065.

¹¹³ The Conference was technically two conferences: an Imperial Conference to deal with constitutional and political issues in the Commonwealth and an Imperial Economic Conference to deal with economic and trade issues. See D.R. Oliver, “Tories Think Trade Is a War And Would Exact Hard Terms, Premier Tells Vast Audience,” *Globe*, 17 June 1930, 1.

¹¹⁴ *Ibid.*

for it. We say that it is not right or fair that a government such as that should represent this country at such a conference until the people have been consulted.¹¹⁵

For both parties, however, the Empire essentially meant Britain. The Dominions generally took little notice of each other.¹¹⁶ When they did, on trade issues, there was often little feeling of fellowship. One of the main trade issues in the months leading up to and during the 1930 campaign, for example, was butter imports from New Zealand. The Liberal government negotiated a trade treaty with Australia in 1925, and subsequently extended it to include New Zealand. An unnoticed and unintended consequence was that the Canadian market was thrown open to New Zealand butter, sales of which increased from a negligible 163 *thousand* pounds in 1925 to almost 40 *million* pounds in 1930.¹¹⁷ Even before the election was called, the furor had led the Liberal government to announce that it would abrogate the treaty. Bennett made the treaty a major issue during the campaign, claiming that the government had taken five years too long to cancel the treaty.¹¹⁸ In the coming conferences, Canada, Australia and New Zealand would join together to pressure Britain to grant trade preferences, but they generally had little interest in granting preferences to each other. As for India, as a contemporary account of Canadian foreign policy put it, “Indian peoples, no less than Canadians, are subjects of the King; but Canada treats them as undesirable aliens.”¹¹⁹ When, in December 1930, departing Governor General Lord Willingdon expressed to King the hope that Canada would take an interest in India,

¹¹⁵ Commons Debates, 24 February 1930, 27.

¹¹⁶ Arnold J. Toynbee “Canada, the Empire and the United States,” in Robert Bothwell and Norman Hillmer, *The In-Between Time* (Vancouver, Calgary, Toronto and Montreal: Copp Clark Publishing, 1975), 22 and George P. de T. Glazebrook, *A History of Canadian External Relations Volume II: In the Empire and the World* (Toronto and Montreal: McClelland and Stewart, 1966), 41.

¹¹⁷ Glassford, 78.

¹¹⁸ See, for example, “New Zealand Pact Warmly Assailed By Tory Chieftain: Abrogated Five Years Too Late, He Says at Woodstock,” *Globe*, 26 June 1930, 3; “Mr. Bennett Heard in Three Speeches: Tory Leader in Quebec Assails Treaty With Antipodes,” *Globe*, 30 June 1930, 3 and “Ottawa Meeting Marks Last Stage of Tory Campaign: Bennett Assails New Zealand Butter and Soviet Coal Importations,” *Globe*, 28 July 1930, 1.

¹¹⁹ R.A. MacKay and E.B. Rogers, *Canada Looks Abroad* (London, Toronto and New York: Oxford University Press, 1938), 257.

King, in his diary, wrote, “I shook my head & said not politically.”¹²⁰ Bennett too, although prepared to encourage greater settlement in Canada from elsewhere in the empire, said “... part of them are backward races, unsuited to our country.”¹²¹

Although both parties made links to the Empire, or Britain, a key element of their electoral program, their approaches differed in two key respects: the strength of the sentimental or emotional appeal and the means by which imperial preference would be attained. Both parties recognized that emotional or sentimental links to Britain were still a potent force in Canadian politics.¹²² Traditionally, however, the Conservatives were seen as the more imperial-minded. The Liberals under Mackenzie King, C.P. Stacey notes, “thought of themselves, and represented themselves, as the party of autonomy,” a task made easy for them by the Conservatives’ “tendency to talk in terms of outmoded imperial sentimentalism.”¹²³ Indeed, King is often accused of rejecting Canada’s British connection with a continentalist or American-oriented economic policy.¹²⁴ Bennett, by contrast, was often viewed and portrayed as an imperialist.¹²⁵ In the 1930 election, however, it was the Liberals who spoke most loudly in support of the Empire and attacked the Conservatives for failing to provide an imperial vision.

The Liberals had seized on the issue of imperial preference as a means of both stimulating trade and taking votes from the Conservatives in regions of the country where

¹²⁰ King Diary, 19 December, 1930.

¹²¹ Commons Debates, 11 February 1929, 29.

¹²² MacKay and Rogers, 252-253 and John Darwin, *The Empire Project: The Rise and Fall of the British World-System, 1830-1970* (Cambridge, U.K.: Cambridge University Press, 2009), 454-455.

¹²³ C.P. Stacey, *Canada and the Age of Conflict: A History of Canada’s External Policies, Vol.2: 1921-1948, The Mackenzie King Era* (Toronto, Buffalo, London: University of Toronto Press, 1981), 134. See also Glassford, 78.

¹²⁴ J.L. Granatstein, *How Britain’s Weakness Forced Canada into the Arms of the United States: The 1988 Joanne Goodman Lectures* (Toronto, Buffalo, London: University of Toronto Press, 1989), 5-6. He refutes the thesis, which he attributes particularly to Donald Creighton, W.L. Morton and George Grant, that King and the Liberals deliberately turned Canadian economic and defence policy toward the United States.

¹²⁵ See, for example, Robert Bothwell and Norman Hillmer, 14; Ramsay Cook, *The Politics of John W. Diefenbaker* (Toronto: University of Toronto Press, 1963), 196; and Dana Wilgress, *Memoirs* (Toronto: Ryerson Press, 1967), 92.

support for the Empire was strong. In a diary entry summarizing the results of an April 8 Cabinet discussion of the coming pre-election budget, King wrote:

We were all agreed on countervailing duties against U.S. on livestock, cereals, etc. It will be a real crack at the States and will I think will [*sic*] be approved by our farmers as they are the ones being hit. Switch trade from U.S. to Britain, that will be the cry & it will sweep this country I believe. We will take the flag once more out of Tory hands.¹²⁶

To some extent, of course, this was a purely political calculation; King saw the Empire issue as one with which he could wrest support away from the Conservatives in Ontario and the West. To a considerable extent, however, he does appear to have seen relations with Britain in family terms. When, for example, William Euler, King's Minister of Customs and Excise, suggested that by increasing imperial preference unilaterally in the 1930 budget Canada would be giving away bargaining power *vis-à-vis* Britain, King answered "...we do not intend to deal in that way with the Mother country."¹²⁷ Finance Minister Charles Dunning's budget of 1 May 1930 lowered British preferential tariffs on 270 products and hit back at the United States by imposing countervailing duties on 16 American products entering Canada.¹²⁸ Later, as he reviewed his performance after his first major campaign address, King wrote, "the part on the Imperial Conference & Canadian Representation very good....I feel the people are largely with us. The British feeling is strong & the anti-American I [think] we have captured both very largely."¹²⁹

Bennett certainly felt some emotional connection to the British Crown. He would later restore the bestowing of British honours in Canada, and he made sure to attend significant royal anniversaries, such as King George's Jubilee in 1935. He was also quite willing to appeal to

¹²⁶ King Diary, 8 April 1930.

¹²⁷ King Diary, 5 April 1930.

¹²⁸ Hart, 106 and McDonald et al. 809.

¹²⁹ King Diary, 16 June 1930.

empire ties when he thought it was politically advantageous.¹³⁰ In the 1930 campaign, however, his approach to the empire was decidedly unsentimental. Increasing imperial preference unilaterally, as the Liberals did in the 1 May 1930 budget, was in his view giving away something for nothing in return.¹³¹ One of the slogans for which he became most known both in the campaign and afterward was “Canada first, then the Empire.” More frequently it was shortened to “Canada first,” just as in Quebec it was “*Canada d’abord*.”¹³² His view of devotion to the Empire was filtered through a nationalist Canadian lens: “I have a record which will yield to that of no hon. Gentleman opposite in my love and devotion to that empire, but I would be indeed a poor Britisher if I were not a Canadian first. ... That man is the best Britisher who loves Canada most.”¹³³

In fact, during the campaign, the Liberals took to accusing Bennett of not wanting to talk about or of being hostile to the empire.¹³⁴ In a speech in Sault Ste. Marie on 17 July 1930, for example, King asked:

Why doesn’t Mr. Bennett or [Ontario Premier Howard] Ferguson speak now about the Imperial Economic Conference? They talk about everything else but that, knowing that if they do their position would be indefensible. The Tories have bragged of their loyalty to the Empire in the past, but Bennett and Ferguson have hauled down the flag.¹³⁵

A few days earlier, Elmore Philpott, Associate Editor of the *Globe*, surely set a record for an attack on Bennett’s Empire credentials when he accused Bennett, in a speech to the Orange

¹³⁰ Rod Finlayson 53-54 recounts the story of a speech Bennett gave at the Macdonald-Cartier Club in Winnipeg in the winter of 1929. Bennett, “knowing his audience, proceeded to satisfy their Imperial thirst.” Finlayson, who was in the audience took him to task for the views expressed. Bennett treated Finlayson’s challenge good-naturedly.

¹³¹ Glassford, 112.

¹³² *Ibid.*, 79.

¹³³ Commons Debates, 6 May 1930, 1826.

¹³⁴ See, for example, William Marchington, “Snatch Opportunity For Imperial Trade, Urges Premier,” *Globe*, 18 July 1930, 1.

¹³⁵ *Ibid.*

Lodge in Brantford on behalf of the Liberal Party, of standing “shoulder to shoulder in opposition to mutualised Empire trade” with Mr. Eamon de Valera, leader of the Sinn Fein Party and “archenemy of the British Empire.”¹³⁶ Some months later, King in his diary gives an account of another of his friendly discussions with Governor General Lord Willingdon in January 1931: “His Ex. told me that someone had said it was one of the strange things in history that Bennett today was leading the Nationalist party in Canada and that I was leading the British Empire party.”¹³⁷

The parties also had very different approaches to imperial trade. King exemplified the self-denial approach to international economic relations. He saw the decline in world trade in the early 1930s as a cause of the depression. The cure for the depression was therefore to reduce barriers to trade, and he was prepared to set an example, even where most other countries were raising tariffs.¹³⁸ Thus he saw increasing intra-empire trade as an opening of the Canadian economy. Imperial preference was created by lowering Canadian tariffs on British goods. On the afternoon of Sunday, June 8, reviewing speakers’ material for the election, King wrote:

I got one idea today which I believe I can make the central one of the campaign – We are at the “meeting of the ways” in contrast to “the parting of the ways” in the 1911 campaign. The meeting of the ways on the highway of Empire, London the central mark – the Conference of 1930 the time. That saying will go round the world.¹³⁹

This would indeed become a theme in the Liberal election campaign. Explaining his vision of British preference to an audience in Saskatoon, King waxed lyrical:

It is nothing less than the royal road of Empire trade, a veritable King’s highway of commerce, uniting the far-flung communities and possessions of the British Empire in a

¹³⁶ “Query to Orangemen on Empire Trade,” *Globe*, 14 July 1930, 10.

¹³⁷ King Diary, 14 January 1931.

¹³⁸ Blair Neatby, *William Lyon Mackenzie King: The Prism of Unity, 1932-1939* (Toronto: University of Toronto Press, 1975), 17.

¹³⁹ King Diary, 8 June 1930.

great co-operative effort to develop to the fullest extent a heritage of natural resources unequalled by any country in the world's history.¹⁴⁰

He also appealed to historical tradition declaring the Dunning Budget, "not a new policy. It is the traditional policy of the Liberal Party as inaugurated by Laurier and Fielding."¹⁴¹

Bennett's vision of imperial preference, by contrast, was unashamedly nationalist and protectionist. His approach to trade was in the National Policy tradition of the Conservative Party. Preference would be granted to Empire goods not by lowering tariffs on those goods, but rather by leaving them unchanged and raising tariffs against goods from non-Empire countries. This concession would only be granted, of course, if the other Empire countries would raise their tariffs against non-Empire countries. The 1930 Conservative campaign is also famous for Bennett's pledge to use tariffs "to blast a way into markets that have been closed to you."¹⁴² Historians do argue about what Bennett meant by that pledge. As Boyko argues that Bennett understood the effects of tariffs well and was perfectly aware that tariffs cannot blast a way into foreign markets unless they are used as a bargaining chip, a means to bargain for lower rates in other markets.¹⁴³ J.W. Dafoe believed that Bennett intended to use higher tariff rates as a bargaining lever. Glassford too suggests that this was in fact Bennett's longer-term goal.¹⁴⁴ Bryce, on the other hand, disagrees. He points out that the tariff increases that Bennett implemented immediately after the election were followed by further increases in 1931 and 1932.¹⁴⁵ Mackintosh too believed that the primary purpose of higher tariffs for Bennett was to preserve or increase Canadian employment; bargaining advantage was at best a secondary

¹⁴⁰ William Marchington, "Saskatoon Cheers As Premier Explains Empire Trade Plan," *Globe*, 12 July 1930, 1.

¹⁴¹ "Tories Think Trade Is A War And Would Exact Hard Terms, Premier Tells Vast Audience," *Globe*, 17 June 1930, 1.

¹⁴² "National Highway Is Promised in Bennett Campaign Speech; Stands By Protective Policy," *Globe*, 10 June 1930, 1.

¹⁴³ Boyko, 193.

¹⁴⁴ Cook, 195 and Glassford, 110.

¹⁴⁵ Bryce, 87.

concern.¹⁴⁶ Certainly there is a history of Conservatives arguing for tariffs as a means to increase employment. And H.H. Stevens, Bennett's Minister of Trade and Commerce wrote, "Were we all to practise a little intelligent discrimination in our daily buying (i.e. Canadian not foreign goods) our unemployment problem would quickly and permanently disappear."¹⁴⁷ One can question too the depth of Bennett's understanding of trade and tariffs. Andrew MacLean, who was one of Bennett's personal secretaries during his term as Prime Minister, said that Bennett was not an economist, as evidenced by his criticism of imports in the 1930 election campaign. Bennett, says MacLean, made the importer appear to be "a sinner of the same order as a highway robber."¹⁴⁸ Indeed, some of Bennett's rhetoric during the campaign directly attributed Canadian unemployment to imports, particularly from the United States. In a speech in Quebec, for example, he asked:

Why are our fellow-Canadians walking the streets asking for work to escape from hunger? It is because we are sending \$3,000,000 every working day of the year to the United States to buy goods. It is because we are sending \$2,000,000 per day to the country to the south to buy manufactured and partly manufactured goods. Men and women, you cannot build a country like that.¹⁴⁹

A few days later in Stratford, Ontario he returned to the theme:

Do you realize that Canada today is the greatest customer of the United States? We, a country of less than 10,000,000 people, import more than France, Germany or Great Britain herself; import more than the millions of Japan and the millions of China. This is not an accident – it is because of the laws made by our Government during the past eight years.¹⁵⁰

As shown in the previous section, Bennett saw protection as necessary to build the country's economy and particularly to escape the fate of being a "hewer of wood and drawer of

¹⁴⁶ Mackintosh, 166.

¹⁴⁷ Quoted in Brecher, 87. See also Brecher, 26-27 for earlier similar statements from Conservative Members of Parliament.

¹⁴⁸ Andrew D. MacLean, *R.B. Bennett: Prime Minister of Canada* (Toronto: Excelsior Publishing, 1935), 74.

¹⁴⁹ "Bennett Concludes His Tour of Quebec," *Globe*, 16 July 1930, 3.

¹⁵⁰ "Buying Too Much From Americans, Bennett Declares," *Globe*, 18 July 1930, 1.

water.” During the campaign Bennett’s returned to the necessity of fostering Canadian development through protection, a necessity learned from the experience of the United States.

The United States learned long ago that to become a great nation it must first look to itself. It therefore began to build up its home markets by keeping out the goods of other nations. ...Look at it now, marching to the slogan of “America First.” It developed its industries and its natural resources, encouraged and protected its agriculture so that out of a slow beginning it has grown to such gigantic proportions where, if the countries affected do not take action, its strength will overflow its borders and battle with the under countries it is its avowed purpose industrially to subdue.¹⁵¹

Bennett criticized the countervailing tariffs imposed against American goods in the Dunning Budget as allowing the United States to determine what Canadian tariff rates would be. He wanted to be free to impose whatever rates he felt necessary to secure adequate protection for Canadian industry. His argument for higher tariffs was shaped to appeal to western farmers, who traditionally favoured lower tariffs. His plan for imperial preference was designed to regain the British market for Canadian farmers who were losing out to countries such as France, and particularly Russia, which, he claimed, were dumping wheat.¹⁵²

On 28 July 1930, the Canadian electorate found Bennett’s vision more compelling. Andrew MacLean quotes Mackenzie King to the effect that with this win Bennett “gained the greatest personal victory in the history of Canadian public life.”¹⁵³ The Conservatives gained forty-six seats in total, for the largest majority in any of the post-war elections to that point. They made gains in all regions of the country, including surprising gains of twenty seats in Quebec and twenty-two on the Prairies. King attributed the Conservative win to lack of organization in his own party, a lack of good propaganda, the New Zealand butter issue, and the

¹⁵¹ “National Highway Is Promised In Bennett Campaign Speech; Stands By Protective Policy,” *Globe*, 10 June 1930.

¹⁵² See Commons Debates, 6 May 1930, 1832 and 16 May 1931, 61.

¹⁵³ MacLean, 15.

extent of unemployment.¹⁵⁴ Bennett agreed that the New Zealand butter issue had helped his party in Quebec. Yet, as others have pointed out, the Conservative victory was less impressive than it appeared. Hillmer and Granatstein refer to it as “respectable but not overwhelming.” Glassford points out that the swing in the popular vote was only three and a half percentage points compared to the 1926 election. Moreover forty of the Conservative seats were won with margins of five per cent or less.¹⁵⁵

Conclusion and the Missing Issue

While it may have been the case that the Smoot-Hawley tariff was aimed at the world in general and not Canada specifically, Canada, as America’s largest trading partner was probably the most affected by it. Canadians were undeniably hurt and angered. American economic historian Edward Kaplan wrote of it:

The Tariff antagonized every element of the Canadian population. The tariff on halibut was doubled, offending the eastern provinces; tariff duties on potatoes, milk, cream and butter were radically increased, angering the populations of Quebec and Ontario; the prairie and western provinces were provoked by increasing duties on cattle and fresh meats; British Columbia and Alberta criticized the high duties in apples, logs and lumber.¹⁵⁶

How to respond to the tariff thus became a major issue in the 1930 election, along with how to deal with the deepening economic depression and the unemployment that resulted from it. The Liberals, led by Mackenzie King, had been in power for most of the preceding eight years. King’s approach was, broadly speaking, one of stay the course – responsible fiscal policy accompanied by a policy of encouraging more open trade. Economic downturns were nothing

¹⁵⁴ King Diary, 29 July 1930. Later that day he added that, in addition to New Zealand butter, “perhaps even more the coming into effect of the new U.S. treaty with its duties on milk and cream during the election itself set the habitants agog.”

¹⁵⁵ Hillmer and Granatstein, *Ranking*, 105 and Glassford, 97.

¹⁵⁶ Quoted in Hart, 106.

new for the Canadian economy. Canada had emerged from a sharp depression in 1920-1922, and there seemed every reason to believe it would emerge from the 1929-1930 Depression as well. An unsettling element of the economic outlook in 1929-1930, however, was a new much more protectionist United States. The issue that faced Canada at this time was what, if anything it could do to reduce its vulnerability. Again the King government's first response was to wait to see what transpired and to avoid provoking the United States to even more damaging actions. When it was clear that the United States intended to implement the Smoot-Hawley tariff in any event, King advocated a policy of replacing American trade with Empire trade. Consistent with his open approach to trade, however, King's Empire strategy involved implementing Empire preference by reducing tariffs.

The Conservatives, led by R.B. Bennett won the election of 1930 by capturing the spirit of fear and anger that many Canadians were feeling at the time. Whereas King and the Liberals offered continuation of old ways, Bennett and the Conservatives promised bold initiatives in new directions. Bennett saw the Depression as something the government could and should do something about. Whereas King proposed to study the issue of unemployment, Bennett proposed to end it. As with the Liberals, Bennett proposed to attack the Depression by increasing trade with the Empire, especially as the American market was closed. Whereas, however, King's approach to Empire proposed "a King's highway of commerce," Bennett's was "Canada first, then the Empire." The next chapter deals with Bennett's initial attempts to implement his economic vision. It was one thing to persuade the Canadian electorate of its efficacy. Bennett would find it another thing to sell it in an international forum. Bennett, was, however, not the kind of leader who would take resistance as an insuperable obstacle.

Efforts to address the Depression were handicapped by the fact that few understood its origins. Whereas today, monetary factors, and in particular, the operation of the interwar gold standard are seen as critical to the origin and propagation of the Depression this was not the case in 1930. True, more economists were beginning to look at the role of the monetary system in economic cycles. Gustav Cassell had written of the problems of the gold standard, and in 1930, John Maynard Keynes published his *Treatise on Money*, which was critical of the gold standard. In Canada the debate about the role of monetary policy was in very early stages. Canada did not have a central bank in 1930, and there was little thought of using monetary policy as an anti-cyclical tool. In Parliament, only the radical Labour and Progressive members argued for a more expansionist use of monetary policy. The two major parties ignored it in the 1930 election. Similarly, in academic circles in Canada there was at this point little discussion of it. Monetary policy would become a major political issue in Canada in the summer of 1931, when monetary turmoil engulfed much of the world, including Canada.

Chapter 3

Sparks from the Rim: The Imperial Conference of 1930

Introduction

Although his election victory might not have been as overwhelming as it appeared, and based more on anger at the Liberals' failures than support for the Conservatives' program, the new Prime Minister, R.B. Bennett, did not see his mandate as in any sense limited. Within weeks of the election, he plunged into a special session of parliament determined to implement his campaign promises. With his majority in a new parliament, Bennett was able to get his legislation through. Commenting on Bennett's first few months in office, journalist Grant Dexter was to write that Bennett had taken more action than even his supporters thought possible.¹ His success in the special session of parliament allowed him to go to the 1930 Imperial Conference with a definite proposal for imperial trade. In London, however, Bennett discovered that convincing the British Labour Government would be a different matter. Aside from an agreement to meet again in Ottawa, as proposed by Bennett, the 1930 Imperial Conference on economic issues produced little but deadlock. Being the determined, goal-driven leader that he was, however, Bennett saw British opposition as an obstacle to be overcome rather than accommodated. Successful leaders, of course, usually have luck, or perhaps timing, on their side.² Timing was to favour Bennett in the early part of his mandate, at least in so far as his ability to implement his vision was concerned. As the Depression deepened and as the international policy environment darkened, more and more people in Britain saw merit in Bennett's plan. Within a year, dramatic events in world financial markets would lead to an

¹ Grant Dexter, "Current Events: The Political Situation in Canada," *Queen's Quarterly*, Vol. 37 No.3 (Autumn, 1930), 762.

² J.L. Granatstein and Norman Hillmer, *Prime Ministers: Ranking Canada's Leaders* (Toronto: Harper Collins, 1999), 3, write "There is no substitute for good luck."

environment more conducive to his vision. Of course, those same events in world financial markets had repercussions for Canada. As a result, monetary policy, “the missing issue” of the last chapter became very much a political concern in Canada and one that Bennett would have to take up.

This chapter comprises four sections. Section I deals with the formation of the Bennett government and the brief special session of parliament that Bennett called in September 1930. Bennett’s personality is given considerable attention in this section, as it determined his approach to the main issues of foreign economic policy. Section II discusses the treatment of economic issues by the Imperial Conference of 1930. Section III discusses the economic crisis in the summer and fall of 1931 that led to political change in Britain and to an external environment more receptive to Bennett’s vision. Section IV deals with the emergence of monetary policy issues on the Canadian political agenda. Bennett was not won over to new ways of thinking about monetary policy; indeed, he appears to have been as wedded to the monetary orthodoxy of the time. He was, however, to realize how unprepared Canada was to conduct its own monetary policy. He thus embarked on acquiring the means to conduct a policy appropriate for Canada. This would lead to the reform of the Department of Finance and eventually to the creation of the Bank of Canada.

I. Formation of a Government and the September 1930 Special Session

The summer and autumn of 1930 was marked for R.B. Bennett by the formation of his government, a special session of parliament and his debut on the international stage with his attendance at the 1930 Imperial Conference. In discussing the performance of the Bennett government in this period, it is entirely appropriate to focus on the performance of Bennett the

leader. As was seen in the last chapter, commentators on the 1930 election sometimes argue that it was the first election where the personalities of the leaders were the dominant theme. Chubby Power, the influential Quebec Liberal Member of Parliament was to say “There is no question that Bennett *was* the Conservative party.”³ This and succeeding chapters will argue that Bennett’s personality and leadership played a significant role in shaping Canadian foreign economic policy in the 1930-1933 period.

Robert Tucker argues that the role of leadership is influenced by a combination the character of the individual and the circumstances and situation in which he or she operates.⁴ As his biographers have shown, by dint of native intelligence, hard work and dedication Bennett had emerged from relatively humble origins to become a wealthy and highly respected businessman and lawyer. His capacity for work was widely known and wondered at. His private secretary Andrew MacLean wrote that in his mid-sixties, Bennett routinely worked fourteen hour days, and often eighteen.⁵ His wide experience in business and the law equipped him with knowledge and expertise in many areas.⁶ As Chubby Power, a political opponent, commented, “He made decisions rapidly, often based on a knowledge and experience that few Canadians had.”⁷ His business background was part of the reason he was seen as able to address the unemployment that was plaguing the country. Bennett’s performance in this period illustrates several themes in

³ Quoted in Peter Waite, *In Search of R.B. Bennett* (Montreal and Kingston: McGill-Queen’s University Press, 2012), 84-85.

⁴ Robert Tucker, “Personality and Political Leadership,” *Political Science Quarterly* Vol. 92 No. 3 (Fall, 1977), 383.

⁵ Andrew D. MacLean, *R.B. Bennett: Prime Minister of Canada* (Toronto: Excelsior Publishing, 1935), 9-12. Grant Dexter writing in the fall of 1931 wondered how much longer Bennett could go on working eighteen-hour days. See Grant Dexter, “Current Affairs: The Canadian Political Scene,” *Queen’s Quarterly*, Vol. 38 No. 4 (Autumn, 1931). The answer was, not long. Bennett suffered a health breakdown later that fall that forced him to take time off in Britain.

⁶ Among the companies on whose boards of directors he served are: The Bank of Montreal, the Royal Bank of Canada, Metropolitan Life Insurance, Alberta Pacific Grain, Imperial Tobacco, Imperial Oil, and E.B. Eddy. Waite, 51 and Larry A. Glassford, *Reaction and Reform: The Politics of the Conservative Party Under R.B. Bennett* (Toronto: University of Toronto Press, 1992), 40.

⁷ Quoted in Glassford, 100.

the international relations literature on leadership. He was a charismatic leader in the sense of being a savior-leader – he had a vision that he was able to persuade people would lead the country out of the Depression.⁸ Bennett was clearly a goal-driven, predominant leader, an individual “vested ... with the authority to commit or withhold the resources of the government with regard to the making of foreign policy.” as set out in the Hermann et al. typology of leadership styles. Key traits of a goal-driven leader are his dedication to a clear and tightly held set of policies and priorities and his view of constraints as objects to be overcome rather than accepted and accommodated.⁹ If the situation in Canada in 1930 seemed to call for a charismatic leader, it also comprised a set of circumstances that enabled or empowered a leader. Daniel Byman and Kenneth Pollack argue that situations where power is concentrated, where systemic, bureaucratic and domestic forces are in conflict or are ambiguous, where circumstances are fluid provide an opportunity for leaders to exert great influence.¹⁰ This was certainly the case in 1930 when the international and domestic economic and policy environments were in a state of tremendous flux and uncertainty.

Charismatic, goal-driven leaders sometimes have difficulty finding associates, since they tend to prefer to be surrounded by people whose views and approaches to issues are as their own. Bennett tried to solve this difficulty by doing it all himself. As was the practice in the Liberal governments of Mackenzie King, Bennett, as Prime Minister, also held the post of Secretary of State for External Affairs. In addition, however, he kept for himself the portfolio of Minister of

⁸ See Robert Tucker, ‘Personality and Political Leadership,’ *Political Science Quarterly* Vol. 92, No. 3 (Fall, 1977), 388.

⁹ Margaret G. Hermann et al, “Who Leads Matters: The Effects of Powerful Individuals,” *International Studies Review* Vol. 3 No. 2 (Summer, 2001), 86-89.

¹⁰ Daniel L. Byman and Kenneth M. Pollack, “Let Us Now Praise Great Men: Bringing the Statesman Back In,” *International Security* Vol. 25 No. 4 (Spring, 2001), 140-141.

Finance; this was unprecedented.¹¹ At one point in 1931, he was also temporarily the Minister of Labour. Peter Waite suggests that he took the Finance post because he was in fact the best person in his caucus for the job.¹² Most assessments of his cabinet judge it not strong in talent; of the nineteen ministers in his cabinet, eleven had never held cabinet rank, while six were new to the federal parliament.¹³ In any event, he appeared to place little trust in his cabinet.¹⁴ He even suspended caucus for a time when he believed it was leaking government plans to the press.¹⁵ Colleagues are said to have found him “aloof, domineering, moody, vain and unforgiving.”¹⁶ H.H. Stevens’s biographer says that Stevens, like the rest of the cabinet, was overwhelmed by Bennett’s “forceful personality.” Opponents often found him abrasive and arrogant. Chubby Power would say of him “In this house, he often exhibits the manners of a Chicago policeman and the temperament of a Hollywood actor.”¹⁷

Having so strong a personality, however, carried with it many disadvantages. Trying to do so much himself meant that Bennett was overstretched. As will be seen in the next chapter, for example, preparations for the Imperial Economic Conference in 1932 were limited because Bennett did not have the time to devote to them. His long hours of work led to frequent health problems – he had, for example, a major illness in the wake of the currency crisis in the fall of 1931.¹⁸ His stubbornness and temper were legendary. His personal secretary, Andrew MacLean, said of his temper “during its fury he will do and say things not worthy of him or of a prime

¹¹ Grant Dexter, “Current Events: The Political Situation in Canada,” *Queen’s Quarterly*, Vol. 37 No. 4 (Autumn, 1930), 763. Bennett held the Finance portfolio for eighteen months. Edgar N. Rhodes was named Finance Minister in February 1932.

¹² Waite, 86.

¹³ *Ibid.*, 110-111.

¹⁴ *Ibid.*, 86. Richard Wilbur, *H.H. Stevens, 1878-1973* (Toronto: University of Toronto Press, 1977), 96.

¹⁵ Glassford, 106.

¹⁶ *Ibid.*, 102.

¹⁷ *Ibid.*, 109.

¹⁸ *Ibid.*, 101.

minister.”¹⁹ His “often abrasive personality,” Glassford writes, sometimes turned possible allies into wounded foes.²⁰ Grattan O’Leary reports that during the Imperial Economic Conference, the British Conservative Minister Stanley Baldwin was fond of quoting Chubby Power’s remark about Bennett’s having “the manners of a Chicago policeman...”²¹

His approach to advice was similarly stubborn. In Grattan O’Leary’s oft-quoted remark, “He was not a consensus man; he was not above asking the opinions of others, he was only above accepting them.”²² Jack Granatstein and Norman Hillmer express a similar view – Bennett asked advice frequently, but only to confirm his own opinions.²³ John W. Dafoe, admittedly a foe throughout Bennett’s political life, thought him particularly dangerous on just this account.

He is chock-full of self-confidence and conceit. If he were an ordinary politician prepared to do anything or say anything to reach office he would forget the extravagance of the campaign. I do not think, however, that Mr. Bennett is a politician in this sense at all. I think he regards himself as a man of destiny. I should be very surprised if he does not try to impose his views, whatever they may be and his projects, however they may shape up, upon parliament and the country.²⁴

His relations with the public service were mixed. When he came to office he intended to fire O.D. Skelton, the Under Secretary of State for External Affairs. Skelton had been brought into government by Mackenzie King in 1923 to assist with preparations for the 1923 Imperial Conference. Bennett was not convinced that Canada needed a Department of External Affairs

¹⁹ MacLean, 76.

²⁰ Glassford, 109.

²¹ Grattan O’Leary, *Recollections of People, Press and Politics* (Toronto: Macmillan, 1977), 72.

²² *Ibid.*, 69. The remark, or slight variations of it, is quoted, for example, in Glassford, 102, in Bob Plamondon, *Blue Thunder: The Truth About Conservatives from MacDonald to Harper* (Toronto: Key Porter, 2009), 159 and in Michael Bliss, *Right Honourable Men: The Descent of Canadian Politics from MacDonald to Mulroney* (Toronto: HarperPerennial, 1995), 113.

²³ Granatstein and Hillmer, 106.

²⁴ Ramsay Cook, *The Politics of John W. Dafoe and the Free Press* (Toronto: University of Toronto Press, 1963), 192.

and when in opposition had mused about abolishing it.²⁵ He soon discovered, however, that he needed a Department of External Affairs and, as King predicted, Skelton was too valuable a source of knowledge and advice to let go.²⁶

For his part, Skelton had not relished the prospect of working for Bennett. Before the election he had been offered the post of Principal of Queen's University, an offer he turned down. Had he known, however, that the Conservatives would win the 1930 election, he would have accepted the offer.²⁷ He was in time able to form a good working relationship with Bennett, but still found him a challenge to manage.

He [Bennett] is the darndest man to teach anything. ... He always knows something about a subject – I never knew a man who knows something about so many things – but he never knows enough & no matter how much I try to enlarge on any particular things – at the end of the interview he will be back to exactly the little & few facts he had at the beginning.²⁸

Waite, however, reports that Bennett was generally liked by the public servants with whom he worked because he was willing to take advice.²⁹ Bennett was certainly able to appreciate talent. As historians of the era have pointed out, he did keep Skelton. He also advanced the career of Lester Pearson and brought William Clifford Clark into government.³⁰

Bennett was generally dismissive of academic advice. In a much repeated anecdote, H.H. Stevens in 1931 suggested Bennett form a council on unemployment with advisers from industry,

²⁵ John Hilliker, *Canada's Department of External Affairs Volume 1: The Early Years, 1909-1946* (Montreal and Kingston: McGill-Queen's University Press, 1990), 135.

²⁶ King Diary, 29 July 1930.

²⁷ Mackenzie King mentions it in his diary 29 July 1930. Norman Hillmer, (ed.) *O.D. Skelton: The World of Work, 1923-1941* (Montreal and Kingston: McGill-Queen's University Press, Toronto: The Champlain Society, 2013), 219-222, reproduces some correspondence on this matter, including an 8 February 1930 letter to Prime Minister King in which he informs King that he has rejected the Queen's post.

²⁸ Quoted in J.L. Granatstein and Norman Hillmer, 106.

²⁹ Waite, 99.

³⁰ Peter B. Waite, *The Loner: Three Sketches of the Personal Life and Ideas of R.B. Bennett, 1870-1947, The 1991 Joanne Goodman Lectures* (Toronto, London, Buffalo: University of Toronto Press, 1992), 65.

labour and universities, only to be told, “Why talk such nonsense? Do you think I want a lot of long-haired professors telling me what to do? If I can’t run this country I will get out.”³¹ As Irving Brecher notes, businessmen and bankers at that time, and Bennett was one himself, tended to be leery of economic theories – Brecher quotes Sir John Aird of the Canadian Bank of Commerce before the House Select Standing Committee on Banking and Commerce in 1923 saying “We do not want theories introduced into banking. If you get into theories you are on dangerous ground.”³² Bennett regarded himself as a practical man. Pierre Boal the United States charge d’affaires in 1933, reported on a conversation he had with Bennett as the Prime Minister was about to go to Washington:

He would go as a realist seeking to attain a practical objective. He was not an economist and was inclined to agree with “Jimmy” Thomas that “the opinions of the first half dozen of ’em cancel out the opinions of the second half dozen of ’em.” He described himself as just a working man who would like to get something done.³³

Yet Bennett was not totally averse to seeking advice from academics. He did attend political summer schools at which academics featured prominently.³⁴ When then Professor W. Clifford Clark sent him a paper on monetary reconstruction and advocating a central bank, Bennett circulated it to thirteen prominent economists for comment.³⁵ Furthermore, he did hire Clark from Queen’s University. As well as being an academic, however, Clark had had business experience, having worked for S.W. Strauss and Company, a Chicago-based firm specializing in

³¹ Waite, *In Search*, 182-183; Robert A. Wardhaugh, *Behind the Scenes: The Life and Work of William Clifford Clark* (Toronto: University of Toronto Press, 2010), 50; John Herd Thompson, *Canada 1922-1939: Decades of Discord* (Toronto: McClelland and Stewart, 1985), 212.

³² Irving Brecher, *Monetary and Fiscal Thought and Policy in Canada, 1919-1939* (Toronto: University of Toronto Press, 1957), 36.

³³ “The Chargé in Canada (Boal) to the Under Secretary of State (Phillips), April 14, 1933,” *Foreign Relations of the United States, 1933* Volume II, 46. The “Jimmy” Thomas is, of course, the British Cabinet Minister J.H. Thomas, with whom Bennett was to cross swords in London in 1930 and again in Ottawa in 1932.

³⁴ Douglas Owram, *The Government Generation: Canadian Intellectuals and the State, 1900-1945* (Toronto, London, Buffalo: University of Toronto Press), 177. See R.B. Bennett, “Democracy on Trial,” *Canadian Problems as Seen by Twenty Outstanding Men of Canada: A Collection of Papers Read at the First Annual Liberal-Conservative Summer School Held at Newmarket* (Toronto: University of Toronto Press, 1933).

³⁵ Wardhaugh, 63.

urban real estate. What was to impress Bennett with Clark at the 1932 Imperial Economic Conference was Clark's practical ability in dealing with the British experts. When talking of his plan to hire Clark, Bennett said, "He's one of the few men in the country who think and talk their language."³⁶ Even then, he and his entourage apparently nursed some suspicion of Clark's academic bent. Rod Finlayson says that Bennett was sensitive about being called "a tool of the professors," a fear that his private secretary Arthur Merriam would sometimes play upon.

He [Clark] was a frequent caller to Bennett's office. Upon his arrival, Merriam would assume the most solemn face ever worn by a secretary – and enter R.B.'s office to announce gravely: "Professor Clarke [*sic*] (with heavy emphasis on 'professor') says it is urgent to see you at once." Bennett would roar for all to hear: "Don't you see I am too busy to see anybody." With equal solemnity, Merriam would tell Clarke: "Not now."³⁷

Bennett's self-righteousness, fierce temper and sensitivity to criticism were evident in his dealings with the press. As noted earlier, most newspapers in 1930 favoured the Liberals in their editorial policies. Bennett did not help the situation; by 1934, according to Andrew MacLean, "he [could] count on the fingers of one hand the editors, journalists and reporters whom he has not turned against him."³⁸ Bennett regarded criticism by the press as irresponsible and even unpatriotic.³⁹ Indeed, in one of his notorious quarrels with individual journalists and editors, he threatened to have *Financial Post* editor Floyd Chalmers jailed over an article in the fall of 1931 in which the *Post* reported that New York investment bankers were concerned about Canada's

³⁶ Quoted in J.L. Granatstein, *The Ottawa Men: The Civil Service Mandarins, 1935-1957* (Toronto: Oxford University Press, 1982), 48.

³⁷ Rod K. Finlayson Papers, "Life with R.B.: That Man Bennett," Microfilm Reel, H1310, Library and Archives Canada, 112.

³⁸ MacLean, 93.

³⁹ Glassford, 109.

fiscal deficit.⁴⁰ The hostility that Bennett engendered with the press would in turn influence how his initiatives were seen by the larger public. According again to Andrew MacLean:

His attitude toward the press is nothing less than dangerous in a time when the nation feels entitled to some share in the knowledge of its problems. Half his political difficulties are due, directly, to the fact that he won't explain, won't tell the facts, or enlarge upon a statement couched in the most evasive legal language.⁴¹

With the election over, Bennett was anxious to get to work. He was sworn in as Prime Minister on 7 August, less than two weeks after the election, and called parliament into special session for 8-22 September. The Speech from the Throne covered just twenty-one lines in Hansard.⁴² In view of the "exceptional economic circumstances" that now prevailed, he said the special session would deal with three issues: unemployment relief, amendments to the customs tariff and amendments to the Customs Act. Bennett told the House that he would not go to the Imperial Conference, then scheduled for 29 September, unless these matters had been dealt with and the House prorogued.⁴³ Again, it is noteworthy that issues involving the gold standard, money and credit received very little attention and in the three weeks of the session were mentioned only briefly in remarks by the United Farmers of Alberta member Robert Gardiner and Labour member J.S. Woodsworth.⁴⁴

The appropriation of \$20 million for unemployment relief passed with little criticism. It was noted that this amount greatly exceeded the \$1.85 million that the federal government had

⁴⁰ Floyd Chalmers, *Both Sides of the Street: One Man's Life in Business and the Arts in Canada* (Toronto: Macmillan of Canada, 1983), 85-90. This instance of Bennett's petulance with the press and more are recorded as well in Allan Levine, *Scrum Wars: The Prime Ministers and the Press* (Toronto and Oxford: Dundurn Press, 1993), 159-167 and O'Leary, 68-81.

⁴¹ MacLean, 106.

⁴² Commons Debates, 8 September 1930, 4-5.

⁴³ Commons Debates, 11 September 1930, 86 and September 20, 1930, 489.

⁴⁴ Commons Debates, 9 September 1930, 44-45 and 48.

provided for unemployment relief in the wake of the 1920 depression.⁴⁵ The tariff measures and Customs Act revisions were more controversial, but Bennett's threat not to go to the Imperial Conference unless these issues were settled first led King to allow the measures to pass. Tariff rates were raised on 130 products, resulting in the sharpest increase in Canadian tariffs in 50 years. Canada went from being a medium-tariff country in comparison with other countries to being a high-tariff country.⁴⁶ The September 1930 tariff increases did not constitute a general revision of the tariff. Rather, they applied only to items that it was believed would quickly ensure additional employment in Canada.⁴⁷ A general revision of the tariff would await the next budget; indeed, the June 1931 budget prepared by Bennett was to raise Canadian tariffs even further.⁴⁸

The tariff changes have tended to receive the most attention in discussions of the period. The amendments to the Customs Act, however, were perhaps more significant in their overall effect. The impetus for these amendments originated in a belief by Bennett and the Conservatives that dumping – that is, the selling of goods in another country at below fair market value -- was becoming a major issue. In introducing the measure, E.B. Ryckman, the Minister of National Revenue, argued that with the depressed state of demand, “distress sales” were taking place all over the world, and that Canada had become “the prize dumping ground for the whole world.” The valuation changes were another stick with which to beat the Americans. The United States, Ryckman claimed, “had chosen Canada as a place to which its merchants and

⁴⁵ Mackenzie King, Commons Debates, 11 September 1930, 93.

⁴⁶ Queen's University Economics Department, “Canadian Trade Policy in a World of Economic Nationalism,” *Queen's Quarterly*, Vol. 41 No.1 (Spring, 1934), 91-92.

⁴⁷ Commons Debates, 16 September 1930, 238.

⁴⁸ See Glassford, 112; Robert B. Bryce, *Maturing in Hard Times: Canada's Department of Finance through the Great Depression* (Kingston: McGill-Queen's University Press, 1986), 53 and 87; W.A. Mackintosh, *The Economic Background of Dominion-Provincial Relations* (Toronto: McClelland and Stewart, 1964), 160; and Michael Hart, *A Trading Nation: Canadian Trade Policy from Colonialism to Globalization* (Vancouver: University of British Columbia Press, 2002), 107.

manufacturers can send their goods when they have surplus products which they wish to unload.”⁴⁹

The amendments authorized dumping duties where imported goods were being sold at less than their cost of production as opposed to fair market value, which had been the law up to then. This was supposed to address the growth of distress sales. The problem was that there was no machinery to investigate the costs of production. When there was inadequate information, the Governor in Council was empowered to set arbitrary values.⁵⁰ The result was, to use Michael Hart’s term, “much artful use” of valuation and anti-dumping provisions in the Customs Act.⁵¹ Canada became a country not only of high tariffs, but of high and unstable tariffs.⁵² This arbitrariness in customs valuations became a major irritant to some of Canada’s trading partners. In 1933, for instance, when Canadian *Chargé d’Affaires* in Washington Hume Wrong visited Secretary of State Cordell Hull to protest impending trade restrictions then in Congress, Hull said, “I thanked the Chargé, but reminded him that I had a protest almost daily about the most amazing elastic system of customs valuations by Canada.”⁵³

II. The Imperial Conference of 1930

His conditions thus satisfied, Bennett sailed for the Imperial Conference on 23 September. He was accompanied by Hugh Guthrie, Minister of Justice; H.H. Stevens, Minister of Trade and Commerce; and Maurice Dupré, Solicitor General; and a team of eight advisers, including W.D. Herridge, Personal Assistant to the Prime Minister. Herridge had been a key figure in the

⁴⁹ Commons Debates, 12 September 1930, 189-193.

⁵⁰ See “The New Government and the Special Session,” in *Journal of the Canadian Bankers Association* Vol. 38 No. 1 (October, 1930) 15.

⁵¹ Michael Hart, 107.

⁵² Queen’s University Economics Department, “Trade Policy,” 92-93.

⁵³ “Memorandum by the Secretary of State of a Conversation with the Canadian Chargé (Wrong), 26 May 1933,” *FRUS*, 1933 Volume II, 49.

election and would become one in the Bennett government, serving as Minister at the Canadian Legation in Washington from 1931 to 1935. He also became Bennett's brother-in-law in 1931 when he married Bennett's sister, Mildred. In addition, the delegation included twelve other advisers from various branches of government, including the Departments of Justice, Mines, Trade and Commerce, and National Defence, as well as from Canadian Wheat Pools and even an academic economist from the University of Saskatchewan.⁵⁴ Dana Wilgress, who was to be a member of the much smaller delegation that attended the London World Economic Conference in 1933, said that the delegation contained too many officials such that "He (Bennett) had rarely been able to find them when he needed their assistance."⁵⁵

A noteworthy absence on the list of advisers, however, was O.D. Skelton, Under-Secretary of State for External Affairs. Bennett had not yet reached the point where he trusted the Department of External Affairs and in particular its under-secretary. He kept preparations for the 1930 Conference an exclusively Prime Ministerial affair, reportedly telling Skelton that Imperial Conferences were the business of the Prime Minister, not the Department of External Affairs.⁵⁶ The only adviser from the Department of External Affairs who accompanied him to London was John Read as Legal Adviser.

The conference, which lasted from 1 October to 14 November, was originally a Canadian idea. In the debate on the February 1929 Speech from the Throne, Bennett had floated the idea of an economic conference of the British Empire to work out a permanent solution to the threat posed by "hostile tariffs."⁵⁷ The Liberal government took up the idea. A passage in King's diary

⁵⁴ The full list is presented in Maurice Ollivier, *Colonial and Imperial Conferences From 1887 to 1937 Volume III Imperial Conferences (Part II)* (Ottawa: Queen's Printer, 1954), 239-241.

⁵⁵ Dana Wilgress, *Memoirs* (Toronto: Ryerson Press, 1967), 96.

⁵⁶ Stacey, 124 and Hilliker, 138.

⁵⁷ Commons Debates, 24 February 1929, 28-29.

in July 1929 illustrates the political calculation in Canada of an Empire meeting, providing him with a response to increased American protectionism and wresting the Empire issue from the Conservatives:

[An Imperial Economic Conference] would be a good reason for not holding the elections in 1930, which will be too soon after the changes in the U.S. tariff & ours, & the question as to who it would be best to send to the next imperial [*sic*] Conference could be an issue in the elections of 1931 which would help us in Quebec. I believe an Economic Conference in Canada in 1930 would take the public mind completely or rather partially off of the tariff issue so far as the U.S. is concerned & wd give us material for an election campaign when it was over.... It seems little rest for next summer, but will be a complete reply to all Bennett's ranting which will be forgotten & buried beneath discussions.⁵⁸

Through 1929, Mackenzie King discussed the possibility of hosting an Imperial Economic Conference in Canada the following year with Sir William Clark, the British High Commissioner in Ottawa, as well as with British Secretary of State for the Dominions J.H. Thomas and Prime Minister Ramsay MacDonald, both of whom visited Canada during the year. All expressed a willingness to hold the meeting in Canada.⁵⁹ In the end, however, a meeting held in Canada posed difficulties for some of the other Dominions.

The 1930 Imperial Conference was thus held in London, as had all previous conferences. The 1930 meeting was concerned with two issues: inter-imperial relations and economic questions. George Glazebrook describes the debate over inter-imperial relations in the latter half of the 1920s, not as a struggle between a conservative metropolitan power and peoples at the periphery yearning to be free, but rather as “an effort to invent forms and practices that would prevent the empire from breaking up.” At the 1926 Imperial Conference, under pressure and threats from Prime Minister J.B.M. Hertzog of South Africa, leaders produced the Balfour Declaration which stated:

⁵⁸ King Diary, 22 July 1930.

⁵⁹ King Diary, 22 July 1929, 18 August 1929, and 19 October 1929.

They [the Dominions] are autonomous communities within the British Empire, equal in status, and in no way subordinate to one another in any aspect of their dominion and external affairs, though united by a common allegiance to the Crown, and freely associated as members of the British Commonwealth of Nations.⁶⁰

A committee of experts, the Conference on the Operation of Domestic Legislation, was established to give legal form to the doctrine of equality of status. The experts met from 8 October to 4 December 1929, and drafted a report for submission to the 1930 Imperial Economic Conference. The report was debated in the Canadian Parliament in May 1930 and a resolution passed calling for the report to be implemented.⁶¹ The British Government apparently had hoped that Bennett, with his reputation as an admirer of British institutions, would help to dilute the recommendations of the Committee and the doctrine of equality of status.⁶² Bennett in fact was not terribly interested in the constitutional issue. In the Canadian parliamentary debate on the resolution, Bennett, in the words of C.P. Stacey, “made vaguely imperialistic noises” but did not oppose it.⁶³ Upon arrival in Britain, he declared the constitutional question as “altogether academic” and “settled four years ago.”⁶⁴ At the Imperial Conference itself, he took very little part in the discussion, saying he would take no action inconsistent with the parliamentary resolution. He was, however, firm that Canada could not commit itself to anything before federal-provincial consultations. At a luncheon with Canadian students at Oxford shortly after the conference, Bennett expressed scepticism, according to Hugh Whitney Morrison’s record of the event, the conference’s trying “to put down in black and white the legal status of the Dominions...trying to reduce to formulae something that had never been reduced to formulae but which had naturally evolved. ... ‘Enough has been done by Hertzog’ he said, ‘to determine the

⁶⁰ Quoted in George Parkin de Twenebroker Glazebrook, *A History of Canadian External Relations, Volume 2, In the Empire and the World, 1914-1939* (Toronto, Montreal: McClelland and Stewart, 1966), 91.

⁶¹ Commons Debates, 27 May 1930, 2621-2625.

⁶² C.P. Stacey, *Canada and the Age of Conflict: A history of Canadian External Policies* (Toronto, Buffalo, London: University of Toronto Press, 1981), 129-30 and Hillmer and Granatstein, *Empire to Umpire*, 104.

⁶³ Stacey, 130 and Ernest Watkins, *R.B. Bennett: A Biography* (London: Secker and Warburg, 1963), 148.

⁶⁴ Charles Selden, “Economics Absorbs Premiers in London,” *New York Times*, 1 October 1930, 11.

independence of states.”⁶⁵ The Conference’s deliberations did, however, lead to the Statute of Westminster in December 1931, as a result of which the Dominions received in effect complete legislative freedom.⁶⁶

For Bennett, the principal issue of the conference was economic and in particular his scheme for promoting imperial preference. In his speech to the plenary session on economic questions on October 8, he said “The primary concern of Canada today is profitably to sell its wheat.”⁶⁷ For Bennett, the key to holding the Empire together was trade. As he told the students in his Oxford visit, as far as he was concerned “the only solution for closer Imperial relations lay on the economic side by granting of Empire preferences.”⁶⁸ A year later when the Statute of Westminster was promulgated, he declared:

With the adoption of the Statute of Westminster the old political empire disappears and everywhere I went in the Old Land I found people looking forward to the (Ottawa) Conference in the belief that we would lay at Ottawa the foundations of a new economic Empire in which Canada is destined to play a part of ever-increasing importance.⁶⁹

In large measure the Empire was essential to confronting to the new world trading order. As he told the opening plenary session on October 1:

Those factors which once controlled the course of international trade and commerce have given place to others. The old order of things has passed. How far the present unhappy state may be regarded as the manifestation of changes into a new condition of world

⁶⁵ Hugh Whitney Morrison Papers, Letter of 3 December 1930. Library and Archives Canada MG 30 E408 Vol.1 Morrison may have inserted his own word when he used the term “independence.” Canadian discussions generally avoided that word as sounding too American, preferring instead “autonomy” or “equality of status.” Norman Hillmer and J.L. Granatstein, *Empire to Umpire: Canada and the World to the 1990s* (Toronto: Copp Clark Longman, 1994), 92-93.

⁶⁶ Stacey, 133.

⁶⁷ Maurice Ollivier, *Colonial and Imperial Conferences Volume III: Imperial Conferences Part II: The Imperial Conferences of 1923, 1926, 1930, 1932 and 1937* (Ottawa: Queen’s Printer and Controller of Stationery, 1954), 278.

⁶⁸ Hugh Whitney Morrison Papers. Letter of 3 December 1930.

⁶⁹ Canadian Annual Review of Public Affairs 1932, 28.

affairs, it is perhaps profitless at the moment to enquire. The facts alone concern us. They are plain and they must be faced.⁷⁰

Two features of Bennett's imperial preference proposal are worthy of note. Firstly, it was not trade liberalization in any sense, let alone a step toward empire free trade.⁷¹ In Bennett's view, Canadian industry required protection against British industry as much as it did against American. His offer to the other participants was a preference in the Canadian market "based upon the addition of a ten percentum increase in prevailing general tariffs, or upon tariff [*sic*] yet to be created"⁷² in exchange for a like preference in their markets. Preference, however, would be created not by lowering the tariffs faced by Britain and the other Dominions, but rather by raising the tariffs faced by every other country exporting to Canada. To get the process started he called for the Conference to approve the proposal in principal and then have committees in each country examine the effects of the proposal on their domestic industries. Delegates would then reconvene in Ottawa early in 1931 to implement the proposal based on reports received from the country committees. Secondly, he did not see the Empire as a closed economic unit, at least where Canada was concerned. Rather, he seemed to see the Empire as a secure base from which members could branch out and seek other opportunities. "We must have – all of us – markets without the Empire," Bennett proclaimed, "and to make those markets sure, and greater, we must place no insuperable barrier in the road of reciprocal world trade."⁷³ As if

⁷⁰ Opening Statement by the Prime Minister of Canada," in Ollivier, 293.

⁷¹ Plamondon mistakenly characterizes Bennett's objective as Imperial Free Trade. There were indeed proposals for empire free trade being floated at the time by, among others, Bennett's life-long friend, Max Aitken (Lord Beaverbrook). Bennett, however, did not favour free trade, and indeed, explicitly denied his offer was a step toward empire free trade (Ollivier, 305).

⁷² Ollivier, 278-79.

⁷³ Ollivier, 304.

to emphasise the point, almost immediately after the conference he travelled to France to see if he could sell some wheat.⁷⁴

Lest any of the delegates believed there was room for compromise or negotiation as to his proposal, Bennett informed them there was none.

Projects other than the one I propose have been placed before you. They have been carefully canvassed by our Delegation, and, while we would avoid anything which might savour of premature condemnation, we are constrained to state that none of them can be accepted by Canada as alternatives at all likely to achieve the purpose we have in mind.⁷⁵

A week after making his proposal in the conference, Bennett told a radio audience via the British Broadcasting Corporation that:

We can only await the decision. It will be a momentous one, for, I believe, and believing, I consider it my duty to say, that if this opportunity for closer economic relations is not seized, it may not come again. This I need not tell you is not intended as a threat. It is rather a prediction which, unhappily, I believe to be true.⁷⁶

British officials did not believe Bennett's denial that he was threatening them, and his remarks caused a great deal of resentment.⁷⁷

Bennett's principal adversary at the London Conference was Philip Snowden, the British Chancellor of the Exchequer. Indeed, some of the press would portray the meeting as a "historic battle" that had come down to a conflict between Bennett and Snowden.⁷⁸ Snowden was an unapologetic champion of free trade; in his memoirs he notes with some pride that the Conservatives accused him of "stubborn Cobdenism."⁷⁹ Although many members of his own party were beginning to look more favourably on protectionism, including J.H. Thomas, the

⁷⁴ Carlisle MacDonald, "Canada Seeks Sale of Wheat in France," *New York Times*, November 25, 1930, 50.

⁷⁵ Ollivier, p. 278.

⁷⁶ Bennett's statement is reproduced in "Bennett Speaks of Empire Trade," *Globe* October 16, 1930, 1.

⁷⁷ Philip Viscount Snowden, *An Autobiography, Volume II, 1919-1934* (London: Ivor, Nicholson & Watson, 1934), 872.

⁷⁸ Edwin L. James, "The Week in Europe: A Question of Tariff," *New York Times*, 12 October 1930, E3.

⁷⁹ Snowden, 873.

Secretary of State for Dominion Affairs,⁸⁰ Snowden was able to convince Prime Minister Ramsay MacDonald to hold to the traditional Labour policy of refusing to tax food. Bennett's plan for imperial preference was therefore assured from the start of opposition from the British Government.

Given fundamental differences between Britain and all of the Dominions on tariffs, Snowden was sceptical the conference could succeed. He recognized Bennett as his principal adversary:

It was clear from the outset that Mr. Bennett, the Conservative Prime Minister of Canada, would be the dominating personality among the Dominion representatives. He is a man of forceful character, vigorous speech, and has a definite policy. Very early in the Conference he put forward his plan for the promotion of closer trade relations between Canada and Great Britain. He summed it up in a single sentence – Canada first, Great Britain second, and the rest of the world nowhere.⁸¹

Snowden's summary of Bennett's proposal in the last sentence is something of a caricature. What Bennett said on the subject of his "Canada first" policy was:

In approaching the economic problem of our Empire I stand four-square behind that policy. And if this Conference is to meet these problems and provide an effective solution of them, it seems to me that my attitude towards my own country will be the attitude of you all towards yours. On no other basis can we hope to effect an enduring agreement of benefit to each one of us. I will determine what my country needs, and, if you do likewise, then we may come together and search out the means by which we can be of mutual assistance in satisfying those needs.⁸²

In light of the charge sometimes made against Bennett that he had a sentimental attachment to the Empire and the Mother country, Snowden's view is of interest: "Mr. Bennett did not impress me as having much imperial sentiment. To him these imperial problems were simply matters of

⁸⁰ Ibid., 873.

⁸¹ Ibid., 868.

⁸² Quoted in Ollivier 277.

business – an opportunity for seeing how much he could get out of others and how little he could give himself.”⁸³

When it became clear that Bennett’s plan involved no reduction of tariffs on British goods entering Canada, “the worthlessness of Mr. Bennett’s offer was obvious.”⁸⁴ Snowden would later write of Bennett, “He surprised me by the apparent ignorance of the attitude of the Labour Government to Tariff policy. Perhaps it was not ignorance of our position, but that he put forward his proposals for Canadian consumption.”⁸⁵ Bennett was certainly not ignorant of the Labour Government’s position on tariff policy, if for no other reason that during the 1930 election campaign and in the special parliamentary session, King repeatedly said that the British Government would under no circumstances agree to the Bennett plan.⁸⁶ And while it was no doubt true that Bennett would have conducted himself with an eye to Canadian public opinion, the most likely explanation for Bennett’s behaviour is that he was championing a policy in which he sincerely believed.

The British side itself can be accused of incomprehension with respect to the positions of the Dominions. J.H. Thomas, the Secretary of State for the Dominions, would write of the 1930 Conference in his own memoirs:

Nothing is more difficult (nor more dangerous) than to prophesy about Dominion matters. Here, in England, we sit at the hub of the Empire, but however closely we may follow the trend of affairs in the far-away corners of that Empire we can never say with complete satisfaction that we are cognizant of all the sparks that may be flying from the rim of the wheel.⁸⁷

⁸³ Snowden, 872.

⁸⁴ Ibid., 869.

⁸⁵ Ibid., 868.

⁸⁶ See, for example, King’s remarks, Commons Debates, September 9 1930, 37.

⁸⁷ J.H. Thomas, *My Story* (London: Hutchinson & Co., 1937), 207

Thomas would subsequently, and infamously, go even further than Snowden in expressing opposition to Bennett's plan. Responding in a debate in the House of Commons to heckling from the Conservative benches as to why the Bennett proposal was not accepted, Thomas retorted, "For the simple reason that there never was such humbug as this proposal."⁸⁸ The ensuing furor prompted Thomas to pen a hand-written note to "My dear Bennett," explaining that in the "hurry of an exciting debate" he had "used the word 'humbug' in referring to your proposal of 10 per cent. I am sure you would be the last person to think that I meant you were a humbug in making it!"⁸⁹

Bennett was not mollified. Nor, in so far as his proposal was concerned, was he prepared to take "humbug" for an answer. After waiting in vain for a week for the British Government to denounce Thomas's statement, he published his own reply in the British press on 1 December.⁹⁰

For if [Thomas's] statement indicates what is to be the attitude of the United Kingdom at the Conference to be held in Ottawa within the next twelve months, then I have little hope that any agreement which Canada might reach with the other overseas Dominions will include the United Kingdom. ... Time is running against us. Canada, in her own interests and in the interests of the Commonwealth, is honestly working for closer economic association. But if her proposal is to be thus contemptuously rejected, Canadians can only accept the rejection and act accordingly by embracing other means at hand of further strengthening their economic position in the world.

The Economic section of the Conference produced little in the way of concrete outcomes. The British Government would not agree to Bennett's proposal for imperial preference. There was some discussion of the possibility of granting a quota for wheat from the dominions in the British market. For a time, Bennett and his Australian counterpart were somewhat interested, with Bennett seeing a quota as useful in limiting Russian sales to the British market. As well,

⁸⁸ British Parliamentary Debates, 25 November 1930. See Thomas 208-09 for his version of the affair.

⁸⁹ Bennett papers, Library and Archives Canada, Reel 992, 98417-98418.

⁹⁰ The statement is reprinted in "Bennett Issues Scathing Reply to 'Humbug' Charge: Hints at Exclusion of Britain." *Globe*, 2 December 1930, 1.

H.H. Stevens argued to Bennett that the government would have to express some interest or risk being seen as uncaring by the Prairie provinces.⁹¹ The British Government, however, was divided itself on whether a quota scheme was practical and thus never made it a serious offer. For their part, Canadian and Australian interest did not last long since their wheat would still have been marketed at the world price.⁹² Thus, practically the only step Britain would take was to sustain the Empire Marketing Board, which was essentially an advertising agency for empire products in Britain – Rod Finlayson would write that it was “the British Empire in the safekeeping of some obscure clerk in a back office in Downing Street.”⁹³ For the British Government, the 1930 conference was seen as “a disappointment, if not a failure” which “[a]fter six weeks of time-wasting procedure ... ended with nothing accomplished.”⁹⁴ For Bennett, however, the conference produced two positive outcomes. Firstly, his proposal had the support of the other Dominions as well as of the British Conservative Party and thus was still alive. Secondly, he was able to persuade his Commonwealth colleagues to agree to meet in Ottawa in the summer of 1931, which would provide him a forum to reintroduce his proposal, especially if political circumstances were to change in a more favourable direction.

Watching Bennett’s performance from Ottawa, Mackenzie King was both envious and mortified. On the one hand, he envied the opportunity the Conference presented of playing the role of statesman on an important world stage. On 5 October, for example, he wrote, “I confess

⁹¹ Ian M. Drummond, *Imperial Economic Policy, 1917-1939: Studies in Expansion and Protection* (London: George Allen and Unwin, 1974), 157.

⁹² Drummond, Ch. 4 “Bulk Purchase, Import Boards, Quotas, and the Imperial Conference of 1930,” covers the debates within the British Government of the various proposals that were seen as possible alternatives to preferential tariffs.

⁹³ Finlayson, 163. The Empire Marketing Board was abolished in 1933 as a result of the recommendation of the Imperial Committee on Economic Consultation and Co-Operation within the Commonwealth, which was chaired by O.D. Skelton. See Norman Hillmer, *O.D. Skelton: The Work of the World, 1923-1941* (Montreal and Kingston: McGill-Queen’s University Press and Toronto: The Champlain Society, 2013), 259.

⁹⁴ Thomas, 205 and Snowden, 869.

though, reading of Bennett's doings in England & all the advertising of a favourable kind that come from an Imperial Conference I cannot help regretting having missed this opportunity & being responsible for having missed it." Just over a week later, he confided, "I continue to regret deeply not being in London at this time. It would have been a wonderful experience, one of life's greatest, possibly the greatest of my life with the stage set as it is at this time."⁹⁵

At the same time, he was also appalled at how Bennett conducted himself at the conference. After Bennett made his proposal on 8 October, King wrote in his diary:

It is amazing he should make this proposal without any sanction of the people or parliament – or even his own party. It is protection run riot. The issue is now clearly joined between the parties.... His manner of speech is of the dictatorial, egotistical, Mussolini style that I think Englishmen irrespective of party would greatly resent.⁹⁶

A few days later, after Snowden had made known his opposition to Bennett's plan, King wrote:

I was delighted to see today that Snowdon [*sic*] & Co. have decided to turn down Bennett's proposals. I think his whole procedure is outrageous, dictating fiscal policy to Britain, most unheard of, & (if) this kind of thing is continued will lead to break up of Empire.⁹⁷

Interestingly, King seemed at times unsure of whether to accuse Bennett of wrecking the Empire or surrendering to it. In contrast to the statement quoted above, for example, a 23 October meeting with Liberal Senators and advisers, he said, "I stressed the Jingo imperialist nature of Bennett's appeal, the Empire first, Empire policies first of tariffs, next of trade, next of defence all settled in London."⁹⁸ He soon decided, however, that Bennett was an Empire wrecker. Following Bennett's furious reply to J.H. Thomas's "humbug" comment, King wrote,

... he [Bennett] virtually declares non-intercourse between the Can. and Br. Govts. It is an amazing document, but very like Bennett who is quite prepared to tell the Br. Empire

⁹⁵ King Diary, 5 October 1930 and 13 October 1930.

⁹⁶ King Diary, 8 October 1930.

⁹⁷ King Diary, 11 October 1930.

⁹⁸ King Diary, 23 October 1930.

as a whole how it is to be run.... He has opened a real fight between the Br. and Can. Govts. The Tories in Canada vs. Labour & Liberals in Britain. This is all that has come out of the Conference. What a farce.⁹⁹

In the debate on the Conference in March 1931, King labelled the Imperial Conference a failure, for which Bennett, more than any other man, was responsible. Calling the conference a “huge failure,” “a fiasco,” that “failed altogether to accomplish anything,” that strained British-Canadian relations more than at any time in the past, King had no doubt who was to blame. The conference, he said,

... was more in the nature of a quarrel than it was of a conference, a quarrel which started with the take-it-or-leave-it attitude of Canada’s Prime Minister when he presented his ultimatum to the British government and which ended with a broadside which my hon. friend fired on the eve of his departure from England. Today the prestige of Canada is lower in Britain than it has been at any time in the past.¹⁰⁰

Bennett’s reply was that, contrary to the impression King was trying to create, the conference was a great success. The other Dominions supported his position and said much the same thing to the British Government as he had. He denied as well that British and Canadian relations were strained. His British interlocutors appreciated his “straightforward talk.” All this was evident in the fact that the British were coming willingly to Ottawa.¹⁰¹ Bennett’s stand in London also garnered support in Canada. King, for example, records in his diary on 2 February 1931, a meeting with Quebec Liberals Lucien Cannon and Chubby Power, in which he is surprised to hear that Bennett’s stock in Quebec was high because protection was popular and

⁹⁹ King Diary, 2 December 1930.

¹⁰⁰ Commons Debates, 16 March 1931, 52.

¹⁰¹ Commons Debates, 16 March 1931, 64-68.

“because he had told Englishmen where they got off at.”¹⁰² The Empire-sceptic O.D. Skelton also liked Bennett’s “frankness and definiteness.”¹⁰³

Although it is unclear how closely Bennett followed British politics, he would surely have been aware that there were strong currents that were favouring his scheme. The Conservatives openly favoured his proposal.¹⁰⁴ British industry favoured protectionism; J.H. Thomas wrote, “Practically without exception, in 1929, the industrialists urged me to introduce tariffs, all pointing out that there was no real hope of improvement unless the unfair competition was dealt with.”¹⁰⁵ Within the Labour Party and its supporters as well there was growing support for some sort of imperial preference scheme. On 2 September 1930, the Economic Committee of the General Council of the Trades Union Congress, for example, passed a resolution dismissing world economic unity and calling for the Imperial Conference “to press for as full development as possible of the economic relations between the constituent parts of the British Commonwealth.”¹⁰⁶ Even within the Labour Cabinet, protection was gaining support.¹⁰⁷ Snowden himself admitted that J.H. Thomas, despite his “humbug” remark, would likely have agreed to at least some of the demands of the dominions were it not for the declared policy of the party.¹⁰⁸ A general election was expected at any time, in which free trade was expected to be the leading issue. In fact, King believed that Bennett was in league with the Conservatives and felt

¹⁰² King Diary, 2 February 1931.

¹⁰³ Waite, 100. In a review of Norman Hillmer’s *O.D. Skelton: the Work of the World*, David Twiston Davis refers to Skelton as Mackenzie King’s “Anglophobe-in-Chief” *Dorchester Review* Vol. 3 No. 2 (Autumn/Winter, 2013), 65.

¹⁰⁴ See, for example, “Baldwin’s Support Pledged to Tariffs Urged by Bennett,” *Globe*, 10 October 1930, 1.

¹⁰⁵ Thomas, 176. In 1929, Thomas was Lord Privy Seal with special responsibility for employment.

¹⁰⁶ Leopold S. Amery, *My Political Life, Volume III: The Unforgiving Years, 1929-1940* (London: Hutchinson, 1955), 31-32.

¹⁰⁷ Charles A. Selden, “Empire’s Tariffs Threaten a Split in the British Cabinet,” *New York Times*, 4 October 1930, 1.

¹⁰⁸ Snowden, 873.

compelled to write himself to Ramsay MacDonald and leading Liberals urging them to hold fast against Bennett's proposal.¹⁰⁹

There appears to have been little if any discussion of monetary issues in the various sessions on economic policy. All countries remained committed to the gold standard at that time. Finlayson, however, recounts a rather curious incident that supposedly occurred within the Canadian delegation.¹¹⁰ At one of the morning meetings of the delegation in the Prime Minister's suite, H.H. Stevens, the Minister of Trade and Commerce suggested that Bennett propose remonetisation of silver. Bennett, according to this account, "[i]n terms that no one could misunderstand, ... subjected Stevens to a diatribe that caused resentment that was never forgotten." As a result, "R.B. was not taking Stevens to any more international meetings." At the World Economic Conference in 1933, Bennett took Edgar Rhodes and left Stevens at home. It is possible that Stevens did propose remonetisation of silver; he was from British Columbia, where silver mining was an important industry and did support the monetization of silver.¹¹¹ And Bennett, a monetary conservative, would likely have rejected it out of hand, especially given the fight with the British over trade he already had on his hands. It is also consistent with Bennett's famous temper. Stevens and Bennett did later have a falling out. It is not certain, however, that this incident would have been at all responsible. Finlayson did not work for Bennett at this time and so would have heard the story well after it supposedly happened. He also gets some of the details wrong – he says, for instance, that the Conference took place in December, when it in fact ended in mid-November, though Bennett stayed in Britain until 3 December. Also, although it is true Bennett did not take Stevens to the World Economic

¹⁰⁹ See King Diary, 3 December and 5 December 1930.

¹¹⁰ Finlayson, 123-124.

¹¹¹ One quality which Bennett appreciated in W. Clifford Clark was the tactful way he refuted the case for bimetallism. Owram, 178 and Bryce, 81.

Conference, he did make Stevens the chair of the Committee working on monetary issues at the Ottawa Imperial Economic Conference (see next chapter). Stevens's biographer makes no mention of such an incident.¹¹²

III. The Crisis Summer of 1931

The planned Imperial Economic Conference did not in fact take place in 1931, but was postponed for a year. It is sometimes claimed that the reason for the postponement was the banking and currency crisis that erupted in the summer of 1931.¹¹³ In fact rumours had been circulating through the winter of 1931 that the conference might have to be postponed because of political uncertainty in Australia and New Zealand. On 8 June 1931, Bennett informed the House that owing to the "uncertain position in Australia," the government of Australia had requested a postponement of the conference. Because of this, and the possibility of a general election in New Zealand, the conference would be postponed until the summer of 1932. Nevertheless, it was probably fortunate that the conference did not take place in the summer of 1931, since the summer and fall saw financial crises which deepened the depression and shook the international monetary system to its core. The American economist Bradford DeLong has written, "If there is one moment that haunts economic historians, it is the spring and summer of 1931 – for that is when the severe depression in Europe and North America that had started in the summer of 1929 in the United States and in the fall of 1928 in Germany, turned into *the* Great Depression."¹¹⁴

¹¹² Richard Wilbur, *H.H. Stevens, 1878-1973* (Toronto and Buffalo: University of Toronto Press, 1977).

¹¹³ See, for example, Snowden, 870 and Finlayson, 140..

¹¹⁴ Quoted in Liaquat Ahamed, *Lords of Finance: The Bankers Who Broke the World* (New York: Penguin Press, 2009), Kindle Edition loc. 6995.

The series of crises of the summer and fall of 1931 began with the failure in May of Credit Anstalt, the largest private bank in Austria. From there the financial panic moved to Hungary, Czechoslovakia, Romania, Poland and, most significantly, Germany, all of whose banks had links to Austrian banks or, investors believed, would be subject to the same pressures as Austrian banks.¹¹⁵ Throughout the spring and summer, actions taken by governments to deal with the spreading crisis were invariably too little and too late. In large measure this was due to a failure to realize how great the danger was. The French Government has come in for a great deal of criticism for its attempting to attach political conditions to any aid it was willing to provide. At crucial times, this resulted in delays in providing the needed assistance. Financial support for the Austrian banking system during the Credit-Anstalt crisis, for example was delayed by French insistence that Austria abandon a proposed customs union with Germany.¹¹⁶ The French Government attached political conditions, including renouncing the proposed customs union with Austria and the cancellation of the construction of two pocket battleships, when Germany sought financial assistance that summer. On 20 June, President Hoover, alarmed by the financial situation in Germany, proposed a one-year moratorium on reparation and allied war debt repayments. Unfortunately, he neglected to consult the French Government in advance. The French Government was particularly aggrieved as it was one of the most affected by this measure.¹¹⁷ It took three weeks of tense negotiations before France would agree to the moratorium and before it took effect.

¹¹⁵ Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919-1939* (New York and Oxford: Oxford University Press, 1995), 270-271 argues that German banks did not have large exposure to Austrian banks. Rather, it appears that foreign investors, caught up in a climate of growing pessimism, did not distinguish between German and Austrian banks. Similarly, Charles P. Kindleberger, *The World in Depression, 1929-1939* 40th Anniversary Edition (Berkeley and Los Angeles: University of California Press, (1973) 2013), 152, writes, "Some wondered whether creditors knew the difference between Austria and Germany."

¹¹⁶ Kindleberger, 150-151; Ahamed, locs. 6442-6455; Eichengreen, *Golden Fetters*, 267-268.

¹¹⁷ See Table 9.3 in Eichengreen, *Golden Fetters*, 279.

Meanwhile, the crisis continued to spread, soon engulfing Britain. Among the measures Germany adopted to deal with its crisis was a “standstill” or freeze on the payment of foreign credits. This raised concerns about the exposure of British banks to German banks and the sufficiency of British reserves. Britain thus began to lose gold. Over the summer, the British Government received two reports pertaining to the depression that further shook confidence in the British economy. On 13 July, the report of the Committee on Finance and Industry (Macmillan Report) was published and revealed that British short-term liabilities to foreigners were larger than many had expected.¹¹⁸ On 31 July, the government received the Report of the Committee on National Expenditure (May Report), which projected a deficit of £120 million in the fiscal year ending in April 1932 and called for major expenditure reductions, including a reduction of twenty per cent in the standard unemployment benefit. The Labour cabinet failed to agree on a set of measures to cover the deficit and on 24 August, Ramsay MacDonald was asked to form a National Government comprised of Conservatives, Liberals and twelve members of the Labour Party. Most of the Labour Party went into opposition. A ten-member cabinet was formed with four Conservatives, including Stanley Baldwin and Neville Chamberlain, and four Labour members, including Ramsay MacDonald continuing as Prime Minister and Philip Snowden continuing as Chancellor of the Exchequer. Bennett’s old nemesis, J.H. Thomas also joined and retained his post Secretary of State for the Dominions. The formation of a National Government pledged to eliminate the fiscal deficit enabled Britain to arrange for loans of \$400 million from consortia of private banks in France and the United States.¹¹⁹

The National Government was able to put together an emergency budget on 10 September involving large expenditure reductions, including a ten-per-cent reduction in the

¹¹⁸ See Ahamed, loc.6742, Eichengreen, *Golden Fetters*, 264, Kindleberger, 157-158.

¹¹⁹ Snowden, 975.

unemployment benefit. These measures were projected to eliminate the government deficit in both fiscal years 1931/32 and 1932/33. Snowden claimed that the budget increased confidence in British finances and succeeded in stemming the outflow of deposits and gold for a few days at least.¹²⁰ The relief did not last long. While the unemployment benefit rate cut toppled the Labour Government, it was a cut to the armed forces budget that toppled sterling. On 15-16 September, disturbances broke out among sailors in the British fleet based at Invergordon.¹²¹ Rumours of a mutiny prompted a renewed outflow of funds from Britain, and on 19 September, the Bank of England sent a letter to the Prime Minister and the Chancellor of the Exchequer asking to be relieved of the obligation to sell gold under the provisions of the Gold Standard Act of 1925 – Britain was abandoning the gold standard. Legislation to give effect to this measure was introduced in Parliament on Monday, 21 September. The British pound, freed from its link to gold began to fall against gold and, of course, the American dollar. Within a few days it fell 23 per cent, from U.S. \$4.86 to U.S. \$3.75. It reached a low of U.S. \$3.25 in December before stabilizing in a range around U.S. \$3.50 by the beginning of 1932, a depreciation of 25-30 per cent. Within weeks, twenty-five countries, mostly in Scandinavia and Central Europe as well as the British Dominions also abandoned the gold standard.

The aftermath of Britain's departure from the gold standard was considerably less dramatic than many had feared. Gustav Cassel, for example, wrote that Britain's departure was "a fact of worldwide importance."¹²² Quite remarkably, however, the feared effects of financial instability did not happen. Indeed, the outlook for the British economy seemed to improve. Leo Amery was to write, "After all the panic and political upheaval the pound had not been 'saved' –

¹²⁰ Ibid., 975.

¹²¹ Amery 67 and E.H. Carr, *The Twenty-Years' Crisis, 1919-1939: An Introduction to the Study of International Relations* (New York: Perennial, (1939) 2001), 110.

¹²² Cassel, *Crisis*, 84.

and ‘not a dog barked’ at its going. There was in fact, a general feeling of relief that the first step had been taken in easing the deflation which was dragging us down.”¹²³ A report in the *Journal of the Canadian Bankers Association* in the spring of 1932 noted:

Visitors to Britain bring back accounts of a new attitude on the part of the British people toward their difficult situation. There is apparent, they say, a new attitude of hope, a new confidence in their ability to work out a solution.... Nothing in Britain is more interesting than the almost universal confidence of the business and financial community that sterling can be controlled by the Bank of England more satisfactorily in the interests of Britain than could the old gold standard.¹²⁴

On 7 October, Ramsay Macdonald sought and received dissolution of Parliament and an election was held on 27 October. Though there was little doubt that the National Government would win, the magnitude of the victory surpassed all expectations.¹²⁵ The National Government won 565 seats, for a majority of 500. The Conservatives were by far the largest party, with 474. Labour was reduced to 52 seats. Philip Snowden, the Labourite disciple of free trade had announced his intention not to run in the election. He was appointed to the House of Lords and was Lord Privy Seal in the new National Government. The post of Chancellor of the Exchequer was filled by Neville Chamberlain.

IV. Implications for Canada

Canada was largely a bystander in the events leading up to Britain’s departure from the gold standard. The Canadian Government was implicated in the Hoover moratorium by virtue of its receiving a share of the German reparation payments. On 26 June, Bennett sent a telegram to the Secretary of State for the Dominions noting that the moratorium would involve a loss of \$4 million over twelve months, but that Canada was willing to “take our part in this endeavour to

¹²³ Amery, 67.

¹²⁴ “The March of Events,” *Journal of the Canadian Bankers Association* Vol. 39 No. 3 (April, 1932), 281.

¹²⁵ Snowden, 997.

stabilize world conditions.”¹²⁶ Britain’s decision to leave the gold standard, however, was a seminal in world and Canadian financial markets. Prime Minister Bennett would say of it that it felt as if “the world’s banker, so to speak, had become insolvent.”¹²⁷ News of the event was conveyed to Bennett on the afternoon of Sunday, 20 September, only slightly before it was announced publicly. According to Finlayson’s telling of the events, “His [Bennett’s] reaction was characteristic and predictable. Without consulting anyone, he drafted and telephoned to the press a statement to the effect that Canada would continue to honour her obligations in terms of her contracts.”¹²⁸ Front-page stories appeared on most Canadian newspapers the next day, quoting Bennett, “What Great Britain may do is for the Government of Great Britain to determine. As for Canada, we propose to maintain the gold standard.”¹²⁹ The *New York Times* carried a small story, also on the front page, quoting Bennett’s pledge.¹³⁰ The irony here, of course, is that Canada was already *de facto* off the gold standard, and had been since January 1929.

Canada had adopted the gold standard in 1853. Like most countries, Canada had been forced off the gold standard early in the First World War. As a war-time measure it implemented the Finance Act, which allowed the Department of Finance to issue Dominion notes to chartered banks temporarily in exchange for acceptable collateral. This rediscounting facility provided chartered banks with funds when faced with a liquidity shortage. In 1923, the Finance Act was made a permanent feature of the Canadian financial system. There was a charge on these

¹²⁶ Alex A. Inglis (ed.), *Documents on Canadian External Relations, 1931-1935*, Document 653, 26 June 1931, 537.

¹²⁷ Quoted in Glassford, 120.

¹²⁸ Finlayson, 143. MacLean, 86-87, relating the same story, says that Bennett tried to consult, but that, it being a Sunday afternoon, all his ministers and advisors were out of town or otherwise unavailable. Bennett himself would later say that “It was impossible in the very nature of things to gather our colleagues about us. A decision had to be taken.” Commons Debates, 29 February 1932, 648.

¹²⁹ “Premier Bennett Says Canada Will Maintain the Gold Standard,” *Globe*, 21 September 1931, 1.

¹³⁰ “Canada ‘Proposes to Maintain’ Gold Standard, Premier Says,” *New York Times*, 21 September 1931, 1.

rediscounted funds, but this rate was seldom changed, and it appears there was never an attempt to use the rate as a means to control the supply of credit in Canada.¹³¹ Canada returned to the gold standard on 1 July 1926. Canada's strong export growth together with strong capital flows from the United States tended to push the Canadian dollar towards its pre-war parity with the American dollar, so that, unlike Britain's, Canada's return to the gold standard at its pre-war parity was relatively easy. It soon became apparent, however, that the operation of the gold standard in combination with the Finance Act was problematic.

When the Federal Reserve tightened monetary policy in 1928 to dampen stock market speculation, the rate of interest on overnight call loans increased. In Canada, the rate on rediscounting charged the banks did not; in fact it was reduced from five per cent to four and a half per cent on 1 September 1928. Canadian banks began to acquire Dominion notes from the Department of Finance under the provisions of the Finance Act. These newly acquired Dominion notes could then be exchanged, at par, for gold from the Department of Finance. Gold was then exported to the United States to acquire American financial assets. "Thus," as Curtis observed, "the Department of Finance was in the position of paying out Dominion notes with one hand and cashing them for gold with the other."¹³² The result was an unsustainable outflow of gold from government reserves. To stem it, the Department of Finance, without announcing it to the public, unofficially requested that banks refrain from redeeming Dominion notes for gold. Although it was not recognized or admitted at the time, Canada was *de facto* no longer on the gold standard.¹³³ The episode illustrates some of the challenges faced by small countries in international markets. One is the sensitivity of financial conditions to changes in international

¹³¹ C.A. Curtis, "The Canadian Monetary Situation," *Journal of Political Economy* Vol. 40 No. 3 (June 1932), 327.

¹³² *Ibid.*, 325.

¹³³ Brecher, 45; Bryce, 124; William Adam Brown, *The International Gold Standard Reinterpreted, 1914-1934* (New York: National Bureau of Economic Research, 1940), 906-907; Curtis, 322-324.

markets. Canada was sideswiped by the tightening in monetary policy in the United States. Canada was also vulnerable in that its structures for monetary control were inadequate, or even perverse. The combination of the gold standard and the operation of the Finance Act created the incentives and the means for banks to drain the government of its gold reserves. In administering the Finance Act, the Department of Finance had the means to control the supply of credit in the economy; it lacked, however, the ability or inclination to do it. Again quoting C.A. Curtis, “In effect, the responsibility for credit control in Canada has been transferred from the banks to a civil division of the government. The government, however, does not appear to be aware of its responsibilities and so they fall out of sight between the two parts of the monetary structure.”¹³⁴

This situation arose out of the lack of policy-making and policy assessment capacity in Ottawa. There was no central bank at the time. An inspector-general of banks had been appointed in the Department of Finance in 1925. Historians of economic thought in Canada, including Irving Brecher, Robin Neill, Douglas Owram, Robert Bryce, and A.R.M. Lower all point to the general lack of study and understanding of monetary and banking issues in Canada up to the early 1930s.¹³⁵ Curtis notes that the discussion of the original Finance Act in 1914 took up about half a dozen pages in the House of Commons debates, while the discussion of the 1923 Act took up about half that – “It is to be doubted if the government or the public ever adequately realized the significance of the Act.”¹³⁶ As for the public service, as Owram notes, in 1930, there

¹³⁴ Curtis, 333.

¹³⁵ Brecher, Ch. 3; Robin Neill, *A History of Canadian Economic Thought* (London, New York: Routledge, 1991), Ch. 8; Douglas Owram, *The Government Generation: Canadian Intellectuals and the State* (Toronto, Buffalo, London: University of Toronto Press, 1986), Ch. 8; Bryce, Ch. 7; and A.R.M. Lower, “The Development of Canadian Economic Ideas,” in J.F. Normano, *The Spirit of American Economics: A Study in the History of Economic Ideas in the United States Prior to the Great Depression* (New York: Committee on the Study of American Economic Thought, 1943), 211-241.

¹³⁶ Curtis, 319.

was one person in the public service with graduate training in economics – O.D. Skelton in the Department of External Affairs.¹³⁷ Even in normal times in the Department of Finance, there was, aside from the inspector-general of banks, no staff that could lay claim to expertise in banking or economic matters.¹³⁸ And 1930 was not normal times for the Department. On top of the deepening economic crisis, the Department was without a Deputy Minister since the death of J.C. Saunders in early 1930. Finance was, according to Bryce, a Department in disarray.¹³⁹

Despite the *de facto* departure from the gold standard in 1929, the external value of the Canadian dollar did not depart greatly from its parity with the American dollar. Explanations for this vary. Because there was so little discussion in public forums and the press of monetary and financial issues, the issue was little remarked upon. Craig McIvor attributed the strength of the Canadian dollar to continued strong capital inflows.¹⁴⁰ Ronald Shearer and Carolyn Clark attribute it to the cooperation of the banks.¹⁴¹ Michael Bordo and Angela Redish attribute it to the credibility of government policy with respect to the dollar. Essentially, the government remained committed to gold standard, so that banks expected the value to be maintained. The determination of both Liberal and Conservative governments to maintain fiscal balance in the face of the deteriorating economic condition contributed to the credibility of the exchange rate parity.¹⁴²

¹³⁷ Owram, 192.

¹³⁸ Curtis, 319.

¹³⁹ Bryce, 67.

¹⁴⁰ R. Craig McIvor, *Canadian Monetary, Banking and Fiscal Development* (Toronto: Macmillan, 1961), 130-131.

¹⁴¹ Ronald A. Shearer and Carolyn Clark, "Canada and the Interwar Gold Standard, 1920-1935: Monetary Policy Without a Central Bank," in Michael D. Bordo and Anna J. Schwartz (eds.), *A Retrospective on the Classical Gold Standard, 1821-1931* (Chicago and London: University of Chicago Press, 1984), 277-302.

¹⁴² Michael D. Bordo and Angela Redish, "Credible Commitment and Exchange Rate Stability: Canada's Interwar Experience," *Canadian Journal of Economics* Vol. XXIII No. 2 (May 1990), 357-380.

When Britain departed from the gold standard the Canada-United States parity came under pressure and fell below the gold export point despite Bennett's pledge to defend the gold standard and honour all Canada's obligations in gold. Despite the decline in the Canadian dollar, however, gold did not flow out of the country. Curtis says that individuals attempting to redeem Dominion notes were "politely, and possibly illegally, refused gold."¹⁴³ Finlayson describes some of the manoeuvres, threats and subterfuges Bennett employed to prevent the acquiring of gold for export; one French firm, for example, was threatened with a review of its accounts for income tax purposes.¹⁴⁴ On 3 October 1931, the International News Service called upon Bennett to clarify whether Canada was still adhering to the gold standard. Bennett issued a statement:

Canada has not altered the position taken when the announcement was made that Britain had departed from the gold standard, nor do we contemplate so doing. We have appealed, and not in vain, to Canadians to conserve our gold supply to meet whatever strain may be placed upon our resources by reason of our foreign commitments, which are payable in gold and will be honoured accordingly.¹⁴⁵

The fiction of Canada's adherence to the gold standard, however, soon had to be abandoned. An Order in Council on 19 October 1931 decreed that gold could be exported only under license.

In the wake of sterling's departure from the gold standard, the Canadian dollar declined against the price of gold and against the American dollar, which was, of course, still tied to gold. The Canadian dollar did not, however, fall as far as the pound, but soon established itself in a range about mid-way between the pound and the American dollar. Nor did it fall as far as the Scandinavian currencies, which had followed the British pound. Nor did it fall as far as the Argentine, Australian and New Zealand currencies, all of which fell further than the pound, in

¹⁴³ Curtis, 321.

¹⁴⁴ Finlayson, 143-144.

¹⁴⁵ Bennett Papers, Reel M1044, 202200.

part as a result of intervention by their respective governments. By contrast, the Canadian Government made no attempt to manage its exchange rate “except in a minor way.”¹⁴⁶

Canada’s public departure from the gold standard did, however, precipitate perhaps the first serious public debate about monetary policy. During the fall of 1931, T.R. Noble of the Royal Bank advocated a depreciation of the Canadian dollar of about 25 per cent from its gold standard parity to place it on a par with the British pound. He argued that the additional income and growth stimulated by a lower value of the Canadian dollar would have more than compensated for the effects of higher costs of servicing American dollar-denominated debts.¹⁴⁷ In February 1932, the House debated a Progressive Member’s resolution to allow the government to issue Dominion notes without relation to its gold reserves. United Farmers of Alberta Member of Parliament G.C. Coote, speaking in favour of the resolution, argued that a further depreciation of the Canadian dollar would benefit wheat farmers. He pointed out that at the old sterling-dollar parity, a Canadian farmer received \$5.87 for every pound sterling worth of wheat in Britain, whereas at the time of the debate, that farmer would receive only \$3.93. By contrast, the Argentine farmer would receive the equivalent of \$5.40, while the Australian farmer would receive the equivalent of \$5.80.¹⁴⁸

Bennett’s determination to resist currency depreciation, however, was based on largely on his assessment of the effects it would have on Canada’s debt servicing costs. In reply to Coote’s comments, Bennett related a discussion he had had with “a very distinguished political economist from London.”

¹⁴⁶ Mackintosh, 174-75. The “minor way” involved some playing with the timing of gold shipments and debt payments.

¹⁴⁷ Bennett Papers, Library and Archives Canada, Reel 1044, 202177-202182

¹⁴⁸ Commons Debates, 29 February 1932, 638.

“My friend, do you think we could go off the gold standard, as you use that term, with the obligations maturing in New York that we have to meet in gold in the next six months?” “Explain,” he said. I explained to him the situation as it stood. “Well,” he said, “That is a new phase of it.” He wrote me a letter – he cabled me, as a matter of fact when he reached London – and said, “You are entirely right. You could not.”¹⁴⁹

As Bryce says, “the debtor mentality – the concern to protect the country’s credit rating – was so widespread that it reached right up through the Finance Department to the prime minister.”¹⁵⁰

In resisting the urge to expand the money supply independently of gold reserves Bennett was not alone. Many in the financial world of the time believed that to devalue one’s currency was to embrace inflation. Eichengreen and Temin and Brecher refer to it as the “gold standard mentality.”¹⁵¹ There was almost a moral aspect to it. Hansen wrote that a wilful change in the exchange rate was viewed as “an act of financial immorality.”¹⁵² This was a potent fear in many countries. Tobias Straumann, for example, finds this was a major reason why Germany and some of the smaller European countries resisted exchange rate changes in the early 1930s.¹⁵³ Policymakers in those countries were shaped by the inflationary experiences and monetary chaos of the immediate post-war period.

This fear was not confined to European politicians. In a memo written for O.D. Skelton, the Queen’s University economist D.C. Curtis agreed that Canada had been off the gold standard since 1929 and that it would be difficult to return to it in the near future; he nevertheless took

¹⁴⁹ Commons Debates, 29 February 1932, 696.

¹⁵⁰ Bryce, 130.

¹⁵¹ Barry Eichengreen and Peter Temin, “The Gold Standard and the Great Depression,” *Contemporary European History*, Vol. 9, No. 2 (July, 2000), 185 and Irving Brecher, *Monetary and Fiscal Thought and Policy in Canada, 1919-1939* (Toronto: University of Toronto Press, 1957), 36.

¹⁵² S.R. Noble, “The Monetary Experience of Canada During the Depression,” in A.D. Gayer (ed.) *The Lessons of Monetary Experience: Essays in Honor of Irving Fisher* (New York: Farrar and Rinehart, 1937), 122 and Alvin H. Hansen, “Submission Made on Behalf of the Manitoba Government Before the Royal Commission on Dominion-Provincial Relations,” November, 1938. Alvin Hansen was a Professor of Economics at Harvard. He would later gain fame as an early expositor of the ideas of John Maynard Keynes in America.

¹⁵³ Tobias Straumann, “Rule Rather than Exception: Brüning’s Fear of Devaluation in Comparative Perspective,” *Journal of Contemporary History* Vol. 44 No. 4 (October, 2009), 603-617.

issue with Noble's argument for depreciation. Firstly, he argued, other countries might retaliate by imposing special duties on Canadian goods, particularly countries still on the gold standard. This fear was not unfounded. France imposed additional duties on British goods when sterling depreciated in the wake of Britain's departure from the gold standard. Indeed, Bennett himself imposed "exchange dumping" duties on British goods. Secondly, Curtis was sceptical that currency depreciation once started could be stopped or controlled:

The greatest danger, which the [Noble] memorandum does not mention at all, is the difficulty of control. There is no reason to believe that it will be much easier to maintain the dollar at a 25 per cent discount than to maintain it at par. Our present organization for managing the gold standard in Canada has proved wholly inadequate with neither the government nor the banks accepting their full measure of responsibility. Now there is no reason to believe that the inadequate system of control will stabilize the dollar at 25 per cent. discount any better than at par, and the demand for New York funds may be as great at 25 per cent premium if a sufficient number of people believe the dollar will depreciate still further.¹⁵⁴

Thirdly, the structure of the Canadian economy also militated against the argument for exchange rate depreciation in the view of some economists. Because Canadian producers of staple goods were essentially price-takers in international markets, little could be expected from stimulative policies unless world demand were to rise. Policies that stimulated additional Canadian production would only contribute to over-supply and to further declines in prices.¹⁵⁵

Finally, with the very limited economic expertise in the Department of Finance at that time, Bennett could get little help from the public service. As Bryce notes, when it came to whether the debt effect or the expansionary effect of an exchange rate depreciation would

¹⁵⁴ Bennett Papers, Library and Archives Canada, Reel 1044, 202295-202300.

¹⁵⁵ Robin Neill, *A History of Canadian Economic Thought* (London and New York: Routledge, 1991), 141. A.F.W. Plumptre, says Neill, makes this argument.

predominate, no one in the Department was asked to or was capable of calculating the quantitative effects.¹⁵⁶

Conclusion

The Conservatives led by R.B. Bennett won the election of July 1930 in good part with the slogan “Canada first, then the Empire.” As he quickly made clear after taking office, this was no mere slogan – it was the way Bennett intended to conduct foreign economic policy. To a considerable extent, this approach was forced upon him. The deepening depression was leading all countries to put a premium on defending the interests of their own producers and workers. It was not a world where cooperation was to be expected. Charles Kindleberger and others have argued that a critical requirement for the operation of an open international economic system is a hegemon willing to provide leadership in defense of that system. In the pre-First World War era, Britain had filled this role. In the wake of the war, the mantle should have passed to the United States, which had become the dominant economic and financial power. Foreign economic policy in the United States, however, reflected a tug of war between internationalist and isolationist domestic interests, with the isolationist forces generally in the ascendancy. Thus, rather than promoting and defending an open international trading system, the United States was one of the most aggressive international actors in defending its own interests, particularly with the implementation of the Smoot-Hawley tariff in 1930.

The Canadian economy was highly dependent on trade in a relatively few staple products in a relatively few international markets and thus was both sensitive and vulnerable. It was sensitive in that its income was very responsive to changes in international prices and demand. It

¹⁵⁶ Bryce, 130.

was vulnerable in that the alternatives it had to defend itself in the face of changes in international conditions were limited. Bennett held out the promise of reducing Canada's vulnerability by switching trade from the United States to the British Empire. By promoting a system of imperial preference, he hoped to fence off the Empire market to Canada's competitors.

As he quickly learned, however, it was one thing to sell this vision to Canadian electors; it was another thing entirely to sell it to other international actors with interests of their own. Bennett's vision thus encountered the seemingly implacable obstacle of the British Government's opposition to taxing food imports. Bennett, however, was a goal-driven leader who was not to be deterred by the obstacle of British opposition. He garnered support for his vision from other members of the Commonwealth for his vision of imperial preference and for his hosting of an Imperial Economic Conference to implement that vision. Moreover, he could see that conditions in Britain were changing in favour of his vision. The decisive change came in the fall of 1931 when financial crisis forced Britain to abandon the international gold standard. The crisis also led to a change in the British Government.

From the point of view of Canada's hosting of the Imperial Economic Conference, the events of the summer and fall of 1931 had brought about two very significant changes. Firstly, Bennett's scheme for Imperial Preference was back on the agenda. The new British Government was receptive to imperial preference. Secondly, monetary policy was now not only on the conference agenda, but also on the Canadian domestic political agenda. Canada, as a small economy was very much affected by developments elsewhere. Monetary developments in the United States in the late 1920s effectively forced Canada off the gold standard, a fact it was able to disguise for a while. With the turbulence unleashed in the summer and fall of 1931, however, Canada was forced to consider how monetary policy should be conducted. The conference

would become a forcing event that contributed to Canadian thinking about monetary policy and the exchange rate.

One index of the issue's new prominence on the Canadian political agenda is the number of questions and debates about it in the House of Commons. In the Parliamentary session from February to May 1930, the index of Commons Debates shows only six entries for "gold standard," and "gold basis for the Canadian dollar" and one entry for "interest rates." For the session preceding Britain's departure from the gold standard, from March to July 1931, there are eleven entries for "exchange rate and currency issues," plus twelve for "gold standard and international monetary system" issues. In the session from February to May 1932, there are ten entries on the exchange rate, 26 entries on wider monetary policy issues, and 13 entries under Great Britain's abandoning the gold standard.¹⁵⁷ Monetary policy and exchange rate issues were clearly becoming issues in which Members of Parliament were taking a greater interest.

¹⁵⁷ Commons Debates Indexes for Volumes 183-185 (February-May 1930), Volumes 187-189 (March-July 1931) and Volumes 191-193 (February-May 1932).

Chapter 4

The 1932 Imperial Economic Conference: Opportunities Missed and Conversations Postponed?

Introduction

For four weeks in the summer of 1932, representatives of nine members of the British Commonwealth – Great Britain, Canada, Australia, New Zealand, South Africa, Ireland, Newfoundland, Southern Rhodesia and India -- met in Ottawa in an Imperial Economic Conference that many believed would have a decisive effect on world trade and on the Depression that was afflicting the world at the time. The principal outcome of the conference was a series of twelve bilateral trade agreements. When the Conference ended in late August, there were official statements expressing satisfaction at the outcomes. At the signing of the bilateral agreements on the closing day of the Conference, Prime Minister Bennett declared them to be “a definite advance toward closer Empire economic association. Because of this, we may fairly claim to an achievement greater than that which any other Conference can claim.”¹

Andrew MacLean, R.B. Bennett’s personal secretary would later write a hagiographic biography of him touting the Conference as a triumph for the Empire and a personal triumph for Bennett.

Among all the great statesmen at the Imperial Conferences of 1930 and 1932, there was at first only one who, in language unadorned, spoke out fearlessly, definitely and concisely on what Canada offered, and what Canada hoped to get in return, and that was R.B. Bennett. The Prime Ministers of the other Dominions, wearied of the negative results of previous pink tea conferences, followed suit so that the Conference held in Ottawa will affect the trade of the world for a generation.²

¹ R.B. Bennett, “Closing Session – The Imperial Economic Conference of 1932,” in Maurice Ollivier (ed.) *Colonial and Imperial Conferences Volume III: Imperial Conferences, Part II* (Ottawa: Queen’s Printer and Controller of Stationery, 1954), 415.

² Andrew D. MacLean, *R.B. Bennett: Prime Minister of Canada* (Toronto: Excelsior Publishing, 1935), 13-14.

Some supporters of Bennett point to the growth in Canadian exports to Britain in the years immediately following the Conference as evidence of its and Bennett's success.³ Yet the overwhelming impression one gets in reading the commentary even at the time is one of disappointment, that this was an opportunity lost. In some ways the Ottawa Conference is seen as the end of an era or the high-water mark for the British Empire as an economic entity. Alex Inglis would write of it:

In some respects this was the last attempt to create an imperial system which would meet the wider needs of the member countries. By and large it failed. Perhaps this is the ultimate failure of the Empire. Although it yet had a certain strategic and military value and although there were still those "mystic ties" which have been so widely acclaimed, there was never again a serious effort to develop a satisfactory imperial system for the community of British nations.⁴

In Alfred Zimmern's assessment, the Ottawa agreements represented "the utmost that proved to be attainable in the way of closer fiscal relations at a time when the government and people of Great Britain were well-disposed to the cause of imperial preference," and thus closed the period of "vague hopes and romantic dreams" of an economic empire.⁵ This sense of an opportunity missed is evident too in the assessment of J.H. Thomas, the Secretary of State for the Dominions and a member of the British delegation:

Neville Chamberlain, son of an illustrious father, journeyed to Ottawa: he was afforded an opportunity of putting into practice many of the ideals that had lain close to the heart of that famous sire. He was generally anxious that a sound Empire policy should be the result of the deliberations. He was so disappointed, so disillusioned by the Imperialism observed in a British Dominion that he came to resent the whole of the Canadian atmosphere.⁶

³ See, for example, Robert Manion, *Life is an Adventure* (Toronto: Ryerson Press, 1936), 336; R.A. MacKay and E.B. Rogers, *Canada Looks Abroad* (London, Toronto, New York: Oxford University Press, 1938), 44-45; Ernest Watkins, *R.B. Bennett: A Biography* (London: Secker and Warburg, 1963), 163; and Peter B. Waite, *In Search of R.B. Bennett* (Kingston, Montreal: McGill-Queen's University Press, 2012), 147.

⁴ Alex A. Inglis, Introduction, *Documents on Canadian External Relations*, Vol. 5, 1931-1935, xi.

⁵ Alfred Zimmern, "The Open Door and Reciprocity," *Queen's Quarterly* Vol. 40 No. 4 (Winter, 1933), 501-502.

⁶ J.H. Thomas, *My Story* (London: Hutchinson & Co., 1937), 210.

Phillip Snowden too was to remark on the note of personal sadness in Chamberlain's reflections on the Ottawa Conference: "Chamberlain said that the Conference had shown him how very thin the bonds of imperial sentiment had worn."⁷ Most of the British participants in the Conference have little hesitation in placing the blame on R.B. Bennett. J.H. Thomas, for instance, would write, "No one had a finer opportunity than Bennett of making the Ottawa Conference a brilliant success. And I cannot think of any single individual who so nearly succeeded in wrecking it."⁸ Neville Chamberlain wrote in his diary at the end of the Conference,

Most of our difficulties centred around the personality of Bennett. Full of high Imperial sentiments, he has done little to put them into practice. Instead of guiding the conference in his capacity as chairman, he has acted merely as the leader of the Canadian delegation. In that capacity he has strained our patience to the limit.⁹

Nor was it only British observers who viewed the Conference as an opportunity missed because of the personality of R.B. Bennett. Dana Wilgress, an adviser with the Canadian delegation, saw Bennett as "a sincere imperialist, ... and desirous of tightening the bonds that united the countries of the Commonwealth," but was to reflect in his memoirs, "...when faced with the great opportunity of his life to accomplish what he had his heart set on -- the consolidation of the British Empire -- he [Bennett] did nothing."¹⁰

Even his defenders concede that Bennett's personality was a source of difficulty at the Conference.¹¹ More neutral historians see Bennett "on display at his worst" at the Conference.¹²

⁷ Phillip Viscount Snowden, *An Autobiography, Vol. II, 1919-1934* (London: Ivor Nicholson and Watson Lt., 1934), 872.

⁸ Thomas, 210.

⁹ Quoted in Keith Feiling, *The Life of Neville Chamberlain* (London: Macmillan, 1946), 215.

¹⁰ Dana Wilgress, *Memoirs* (Toronto: The Ryerson Press, 1967), 95.

¹¹ Leo Amery, *My Political Life, Volume III: The Unforgiving Years, 1929-1940* (London: Hutchinson, 1955), 87, explaining the success of the Conference, writes, "The chief credit goes to Bennett, who, *whatever his defects of manner and his lack of preparation in detail*, has shown forcefulness, vision and courage." [My Emphasis] John Darwin, *The Empire Project: The Rise and Fall of the British World-System, 1830-1970* (Cambridge: Cambridge University Press, 2009), 453, writes that even Canadians were embarrassed by Bennett's bullying.

Yet, reading between the lines of the various criticisms of Bennett, one senses a recognition that the fundamental problem was not Bennett's personality, but a basic incompatibility of national interests. Bennett was acting as head of the Canadian delegation and thus advancing positions with which the British could not agree. Similarly, J.H. Thomas, while blaming Bennett for the failure of the Conference, adds, "... and yet, in the same breath I say that he loved Canada and was devoted to the Empire and all its traditions."¹³ In reviewing the Conference experience and outcomes, this chapter will argue that the failure of the Conference to fulfil the dreams of its supporters was not due to the personality of this or that statesman, but rather to natural interplay of national interests. Despite some feeling of kinship and common heritage, the countries of the British Empire did not form a natural economic unit, nor, protestations to the contrary, was there much interest in trying to become one. The Ottawa Conference can thus be seen in realist or neo-realist terms as the exercise of power to secure competitive gains. E.H. Carr, for example, lists the Ottawa Agreements as "a slightly more complicated variation" on the "characteristic modern method of acquiring markets and the political power that goes with them." Peter Waite quotes a piece of doggerel from the December 1931 *New Statesman and Nation* that captures as well as any modern neo-classical international relations theorist the relative gains considerations the various statesmen would bring to Ottawa:

So, as each imperial problem comes to tax our mother-wit,
First we ask ourselves the question, "What do we get out of it?"
And for each imperial partner I surmise the final test
Is, "Do we get from the Empire slightly more than all the rest?"¹⁴

¹² J.L. Granatstein and Norman Hillmer, *Prime Ministers: Ranking Canada's Leaders* (Toronto: HarperCollins, 1999), 109.

¹³ Thomas, 210.

¹⁴ Quoted in Waite, 136. Recall from John Mearsheimer, "The False Promise of International Institutions," *International Security* Vol. 19 No. 3 (Winter, 1994-95), 11, that a distinguishing feature of the neo-realist school is its belief that states seek to maximize *relative*, as opposed to *absolute* power.

The participants in the Conference therefore probably achieved as much as was possible. This is not to suggest that personalities and personal visions did not matter. Ironically, it can be argued that a Canadian Government headed by the Liberal Mackenzie King might have achieved a more far-reaching agreement with the Conservative Neville Chamberlain than did the Conservative Bennett. Whether this would have made much difference to the economic evolution of Canada or any of the other members of the Empire, however, is doubtful.

I. The International Setting

Writing at mid-year, one commentator said, “The year 1932 will no doubt go down in history as the year of the great conferences.”¹⁵ In addition to the Ottawa Imperial Economic Conference that was to be held in the summer, an international disarmament conference had begun in Geneva in February. The Lausanne Conference on Reparations and War Debts met in June and July of 1932. Participants at the Lausanne Conference agreed that there should be a world economic conference before the end of the year. In a year of conferences, however, the Imperial Economic Conference was one that was looked to with considerable anticipation. In a world that was mired in economic depression, where trade and commodity prices had dropped precipitously, the prospect of nations representing a quarter of the earth’s surface and a quarter of its population meeting to consider the formation of a preferential trading bloc stirred hopes within the Empire and apprehension without. Of course, supporters of the Conference were careful to reassure outsiders that the entire world would benefit from an economically stronger and more prosperous British Empire. In admittedly hyperbolic terms, the British Conservative

¹⁵ “The March of Events,” *Journal of the Canadian Bankers Association* Vol. 38 No. 4 (July, 1932), 402.

Member of Parliament, former Secretary of State for the Dominions and fervent Empire enthusiast, Leo Amery, told the Royal Institute of International Affairs,

That Conference is, I venture to say, going to matter more to ourselves and, indeed, to the whole world, than any other political event of our time. Upon its success or failure hang not only our immediate prosperity and the prospects of Imperial development and unity but also in large measure the future political and economic structure of the civilised world.¹⁶

Though the Conference had been planned since the fall of 1930, developments in trade, monetary affairs and security in the international environment had transpired such that by early 1932, it appeared that the prospects for Bennett's plan for imperial preference and a more economically integrated British Empire had significantly improved. On the trade side, economic nationalism was everywhere on the rise -- with scarcely an exception, said the Royal Institute for International Affairs *Survey of International Affairs* for 1932, tariffs increased throughout the world.¹⁷ The adoption of the Smoot-Hawley tariff in the United States in 1930 had already dealt a serious blow to the Canadian economy and had driven both major political parties to see increased trade within the Empire as the most plausible response. A tax bill passed in July 1932 hurt Canadian economic interests even more when it imposed high duties on copper, lumber and oil.¹⁸ And even though the Democratic Party platform in the 1932 election called for reductions to Smoot-Hawley tariff rates, Democratic votes aided the passage of the new duties. Although it is debatable to what extent Bennett might have seen imperial preference as a bargaining tool, he and his supporters would no doubt have noticed that the prospect of closer imperial trade relations had caught the attention of the United States. Describing the Canadian reaction, the *New York Times* correspondent wrote:

¹⁶ Leopold S. Amery, "The Imperial Economic Conference: Address Given at Chatham House on June 28th 1932," *International Affairs* Volume 11 No. 5 (September 1932), 678.

¹⁷ H.V. Hodson, "The Universal Tariff War," in Arnold J. Toynbee (ed.) *Survey of International Affairs, 1932* (London: Humphrey Milford for the Royal Institute on International Affairs, 1933), 5.

¹⁸ *Ibid.*, 5.

It had demonstrated once more, they said, that there was no permanence, no stability in trade relations with the United States, and that a business soundly established, developed over many years – as in copper and lumber – might be upset overnight by action of Congress without the slightest concern for anything but the American interests involved. ...Such incidents are likely to persuade Canadians that it is not a bad thing to mix some sentiment with tariffs and to raise high expectations that out of the imperial conference will come a linking of the British nations in the bonds of common advantage.¹⁹

Most newspapers in the United States, relying as they did on the import of cheap newsprint from Canada, opposed the Smoot-Hawley tariff,²⁰ with the *New York Times* being one of those most opposed. Thus even in supposedly neutral news stories on trade issues, American papers often reflected a degree of sympathy for Canadian views. A 3 July article in the *New York Times* noted that American observers would be attending the conference and “wondering whether the Smoot-Hawley tariff, aimed almost solely at Canada, was after all a wise move.”²¹ More and more the trade options available to countries appeared to be reduced to economic nationalism for large, self-sufficient states or regional trade agreements for smaller countries.²² For the British Dominions, the Empire appeared, for the moment at least, to be their region. The war had shown Britain that it was far from self-sufficient and thus could not be indifferent to a world of increasingly closed trade blocs. In his 1931 book *England's Crisis* the French political scientist André Siegfried writes, “Caught between a ‘Fordised’ America and a ‘cartelised’ Europe, [Britain] will eventually have to enter an international economic alliance.”²³ Similarly, Leo Amery argued that while modern mass production technology achieved its greatest

¹⁹ V.M. Kipp, “Parliament Ends Work in Dominion: Senate Duties on Copper and Lumber Mar Closing Hours of Ottawa Session,” *New York Times*, 5 June 1932, E6.

²⁰ Stephen Scheinberg, “Invitation to Empire: Tariffs and the American Economic Expansion in Canada,” *Business History Review*, Vol. 47 No. 2 (Summer, 1973), 226.

²¹ “World Trade Hangs on Ottawa Meeting,” *New York Times*, 3 July 1932, E8. One of the sub-headlines for this story read, “Our Tariff Has Lost Us Market We May Not Be Able to Recover.”

²² H.C. Goldenburg, “Canada’s Foreign Trade and the Ottawa Trade Agreements,” in Vincent Massey (ed.), *The Liberal Way: A Record of Opinion on Canadian Problems as Expressed and Discussed at the First Liberal Summer Conference, Port Hope, 1933* (Toronto and Vancouver: J.M. Dent and Sons, 1933), 152.

²³ Quoted in Darwin, 420.

efficiency in markets larger than most individual nations, so that the world would see “an evolution toward groups of cooperating nations.”²⁴

By 1932, the Labour Government, which had so strenuously opposed Bennett’s plans for imperial preference in 1930, had been replaced by a National Government, which, since the election of 27 October 1931, was dominated by Conservatives. There have been suggestions that Bennett was hoping for such a change. Mackenzie King, in his diary certainly believed that Bennett was aligning himself with the Conservatives in Britain.²⁵ J.A. Stevenson, the Canadian correspondent of the *Times of London* speculated that the optimism Bennett expressed in advance of the Ottawa Conference reflected the hope that the Conservatives Stanley Baldwin and Leo Amery would replace the Labourites Ramsay MacDonald and Philip Snowden as directors of British economic policy.²⁶ A few days before the postponement of the Ottawa Conference was officially announced on 8 June 1931, Hanford MacNider, the American Minister in Ottawa informed his authorities that it was:

more or less openly admitted in Ottawa that last autumn Mr. Bennett suggested the adjournment of the Imperial Conference to Ottawa in the firm belief that by the summer of 1931 the Conservative Party would have been returned to power in Great Britain. Since thus event has not as yet taken place the futility of dealing with the Labour government is becoming increasingly emphasized.²⁷

Although Ramsay MacDonald of the Labour Party was still Prime Minister in the National Government, Neville Chamberlain, son of Joseph Chamberlain, became Chancellor of the Exchequer. Chamberlain the elder had unsuccessfully tried to promote self-sufficiency

²⁴ Leo Amery, 683.

²⁵ See, for example, the King Diary entry for 2 December 1930, “He [Bennett] has opened a fight between the British & Can. Govts. The Tories in Canada vs. Labour & Liberals in Britain.”

²⁶ J.A. Stevenson, “Current Events: The Canadian Political Scene,” *Queen’s Quarterly* Vol. 38 No. 1 (Winter, 1931), 180.

²⁷ Quoted in Richard N. Kottman, *Reciprocity and the North American Triangle, 1932-1938* (Ithaca: Cornell University Press, 1968), 18, footnote 6.

within the British Empire; his plan, however, had been rejected in the 1906 election. In February 1932, Chancellor Neville Chamberlain introduced a ten per cent duty on most imports, marking Britain's formal abandoning of free trade and "set[ting] the stage for negotiations along the line of those suggested by Mr. Bennett in 1930."²⁸ Even more favourably as far as Bennett was concerned, at his urging Chamberlain had been persuaded to exempt goods from the new import duties, pending the outcome of the Ottawa Conference.²⁹

Developments in international financial markets since Britain's departure from the gold standard in September 1931 also appeared to improve the prospects for closer cooperation within the Empire. First, Britain's departure from the gold standard did not touch off the economic and financial earthquake that was feared. Indeed, growth appeared to be resuming in Britain. The British pound by the end of 1931 had stabilized at about a 25 per cent discount relative to its pre-September parity with the American dollar. With the gold standard abandoned by its traditional champion, however, minds in Britain in particular turned to the question of what kind of international monetary arrangements would follow. Within weeks of Britain's abandoning the gold standard, about two dozen countries, including Canada, followed. These were mainly Commonwealth countries and smaller European countries for which Britain was a so that there was a major market. Unlike most of these currencies, however, the Canadian dollar did not fall as much as the pound, but rather floated in a narrow range midway between the American dollar parity and the new lower pound value. Some economic commentators, notably Gustav Cassel and John Maynard Keynes believed that the formation of a sterling bloc could point the way to

²⁸ "Ideals and Profits Clash at Ottawa," *New York Times*, 9 July 1932, 34.

²⁹ Lord Beaverbrook, *Friends: Sixty Years of Intimate Personal Relations with Richard Bedford Bennett* (London, Melbourne, Toronto: William Hienemann, 1959), 67-68. According to Beaverbrook, at Bennett's urging he and Canadian High Commissioner Howard Ferguson personally lobbied Chancellor Neville Chamberlain. Feiling, 205, says that "only Canadian remonstrance" had led Chamberlain to exempt Empire goods. Other counsellors had advised Chamberlain to impose the duties as a bargaining lever to use in Ottawa.

the development of a new, more stable international monetary system. In an exchange with the British Treasury's Frederick Leith-Ross, Keynes agreed that "matters are not yet ripe for an international conference and that little could result from such a meeting," and then asked, "But have you considered the possibilities of an Empire conference? I am rather inclined to think that that might be the first step to take."³⁰ A few weeks later, he circulated a draft paper, "Notes on the Currency Question," to senior officials in the Bank of England and the Treasury in which he again looked to the Empire as a forum for initial steps in the reconstruction of an international monetary order. Again he argued that the time was not ripe for an international conference, but thought "there is a great deal to be said for an Imperial Currency Conference." At that point, only South Africa, of all the Empire countries, was still on the gold standard, while the Canadian dollar floated midway between the American dollar parity and the new lower pound value. An Imperial conference would provide the opportunity to unite the Empire on a reformed sterling standard, which would then enable Britain to approach other countries in a stronger position.³¹

Gustav Cassel too did not see the value of a major international conference on the international monetary system. He thought, however, that progress would be possible if a smaller group of countries, such as the Commonwealth, ideally with the cooperation of the United States, could agree among themselves they could point the way toward a new, more stable monetary regime based on paper money.³² In his Rhodes Memorial Lectures at Oxford in the spring of 1932, Cassel called upon Britain to establish and lead such a group of paper currency countries. It would be natural, he wrote, that within this group there should be greater

³⁰ Letter from John Maynard Keynes to Frederick Leith-Ross, October 20, 1931, in Donald Moggridge (ed.) *The Collected Writings of John Maynard Keynes Volume XXI, Activities, 1931-1939: World Crises and Policies in Britain and America* (Cambridge: Macmillan, Cambridge University Press for the Royal Economic Society, 1982), 3-4.

³¹ John Maynard Keynes, "Notes on the Currency Question," paper for Frederick Leith-Ross, circulated to Montague Norman and Hubert Henderson, November 16, 1931 in *Collected Writings XXI*, 16-17.

³² Gustav Cassel, *The Downfall of the Gold Standard* (London: Frank Cass and Company, 1936), 88-89.

freedom of trade than prevailed in the rest of the world. If this group of paper currency countries realized that their currencies were in fact more stable than gold standard currencies, they would not themselves be tempted to return prematurely to the gold standard. The cooperation they established among themselves might be the best preparation for an eventual return to the gold standard if that was desired.³³ Thus in Cassel's view, "the money problem was generally felt to be of predominant importance" at the Ottawa Conference.³⁴

In May 1932, Cassel told a meeting of the British Conservative Party, with respect to the Ottawa Conference, that it was

quite impossible for Great Britain to go to Ottawa not being prepared to tell the other participants in the Conference what the pound sterling is going to represent on the future, or what are the fundamental principles underlying Great Britain's actual monetary policy. An expert discussion of these important questions and of the possibilities of forming a Sterling Group must be regarded as an essential part of the preparations for the Imperial Conference.³⁵ [Italics in the original]

The Lausanne Conference, which had met 16 June to 9 July 1932 and which had been chaired by Ramsay MacDonald, seemed to bring hope of change in the international financial markets. Unlike many of the international conferences of the previous decade, the Lausanne Conference appeared to have made significant progress. By agreeing to end German reparations, it had, in the words of Gustav Cassel, "created a singular opportunity for a reversal of the world's monetary policy."³⁶ The Lausanne Conference, which was held under the auspices of the League of Nations, was not attended by the United States. Since May, however, American and British authorities had been discussing the possibility of convening an international conference to stabilize world commodity prices. The news of these consultations was sprung on

³³ Gustav Cassel, *The Crisis in the World's Monetary System: Being the Rhodes Memorial Lectures, Delivered in Trinity Term, 1932* (Oxford: Clarendon Press, 1932), 93-94.

³⁴ *Ibid.*, 94.

³⁵ Cassel, *Downfall of the Gold Standard*, 86-87

³⁶ Gustav Cassel, *Downfall of the Gold Standard*, 113-114

the Dominions, and the rest of the world, when the Americans announced at the end of May that they had taken place. This occasioned a telegram to the Dominions from an embarrassed British Dominion Office acknowledging that such conversations had taken place but were merely “informal and preliminary.” The proposed conference, if it came to be realized, it would take place “after, and as a consequence of” the Lausanne Conference. It would have the advantage of having the United States participate. The Dominion Office assured the recipients that all this was “purely speculative and we would be glad to learn views of their Governments on matters the origin and development of which would now be plain to them.”³⁷ The Lausanne Conference did call for an International Monetary and Economic Conference, as it was called officially, ideally before the end of the year. As well as discussing the stabilization of commodity prices, it would also consider tariff and other trade barriers. Given that the Lausanne Conference ended on 9 July, mere days before their delegation departed for Ottawa, the British authorities had little time to consider the effect of the impending World Economic Conference, as it was more commonly known, on the Ottawa deliberations.³⁸ Nevertheless, the prospect of the World Economic Conference would be a factor that delegates in Ottawa considered, and on occasion hid behind. The Ottawa Conference would in turn be judged on whether it improved or detracted from the prospects for a successful World Economic Conference.

A third set of developments in the international environment also appeared to lend urgency to the creation of a self-sufficient Empire bloc. In the early 1930s, as the economic depression worsened, the security environment also deteriorated. When E.H. Carr was writing his critique of utopianism, there was a tendency to speak of 1931 as “the return to power

³⁷ “Telegram from Secretary of State for Dominion Affairs to the Secretary of State for External Affairs, Canada, 3 June 1932.” R.B. Bennett Papers, Library and Archives Canada, Reel M1180, 117511.

³⁸ Ian M. Drummond, *Imperial Economic Policy, 1917-1939: Studies in Expansion and Protection* (London: George Allen & Unwin Ltd., 1974), 218.

politics.”³⁹ In September 1931, just days before Britain had been forced off the gold standard, Japan had invaded Manchuria. In Germany, nationalist parties were on the rise and evidence was reaching the British Foreign Office of illegal rearmament.⁴⁰ The Soviet Union was seen as a growing and potentially hostile power in the world. In a 23 March 1932, the Cabinet cancelled the so-called Ten Year Rule, whereby for military budget planning purposes it was to be assumed that there would be no major conflict for at least ten years.⁴¹ The rule had been in effect since 1919 and the date was moved forward every year until 1932. In the First World War, the “white dominions” had made a major contribution to the manpower and material resources of the British war effort. In the darkening security environment of the 1930s, therefore, the potential contribution that the Empire, and in particular the “white dominions,” could make to British defence began to weigh more heavily in British domestic and foreign policy calculations.⁴²

Unfortunately for supporters of the Ottawa Conference, the forces pushing countries toward closer cooperation were to prove no match for the centrifugal forces of national interest and economic gravity. The interests of the countries involved were sufficiently different that it would have been difficult to produce a more cooperative outcome. It may not, however, have been impossible. The British came to the Conference with a position that was closer to the Liberal policies of 1930. A less acrimonious atmosphere might have prevailed, then, had Mackenzie King been Prime Minister. As it happened, however, the preparation and

³⁹ E.H. Carr, *The Twenty-Years' Crisis, 1919-1939* (New York: Perennial, 2001), 103. Carr, of course, argues that international relations were always about power; what changed in 1931 was the end of the monopoly of power enjoyed by the status quo powers.

⁴⁰ Steven E. Lobell, “Second Image Reversed Politics: Britain’s Choice of Freer Trade or Imperial Preference, 1903-1906, 1917-1923, 1930-1932,” *International Studies Quarterly* Vol. 43 No. 4 (December, 1999), 687.

⁴¹ *Ibid.*, 686.

⁴² Ian M. Drummond, *British Economic Policy and the Empire, 1919-1939* (London: George Allen and Unwin, 1972), 17; John Darwin, “A Third British Empire: The Dominion Idea in Imperial Politics,” *Oxford History of the British Empire*, 66-67; Max Beloff, “Britain and Canada Between the Wars: A British View,” in Peter Lyon (ed.), *Britain and Canada: Survey of a Changing Relationship* (London: Cass, 1976), 52.

organization, or lack thereof, leading up to the Conference, together with the difficult atmosphere that prevailed at the Conference itself, made for a difficult meeting indeed. The next section of this chapter deals with the preparation and organization of the Conference. Bennett's insistence on deciding so many of the details himself led to a poorly prepared meeting. The section following deals with the atmospherics of the Conference. The pressures on the delegates arising from the public expectations, the glare of worldwide publicity, and the presence of disruptive influences such as industry interest groups, led to an atmosphere of division and distrust among the delegates. While agreements were negotiated, little in the way of improved Empire sentiment was achieved. The discussion of the issues and outcomes in the areas of trade, monetary policy, and imperial consultative machinery follows.

II. Preparation and Organization

In a review of the experience of Group of Seven Summits in the 1990s and early 2000s, former British diplomat Nicholas Bayne argued that the key to a successful summit meeting was careful advance preparation:

The issues coming to the summit must have maximum advance preparation in order to limit the items requiring resolution at the summit itself. The most effective summits of this period demonstrate this. Without proper preparation, the leaders will be confronted with too many problems and they will vacillate. This leads to disagreements persisting among G7 countries, which can undo any apparent consensus at the summit.⁴³

This was not the way the Imperial Economic Conference was conducted. The confusion began with the agenda, or rather the lack of one. Ian Drummond's account of the preparations for the Ottawa Conference from the British side details the travails of their High Commissioner,

⁴³ Nicholas Bayne, "Reforming the International Financial Architecture: The G7 Summit's Successes and Shortcomings," in Michele Fratianni, Paola Savona and John Kirton (eds.), *Governing Global Finance: New Challenges, G7 and IMF Contributions* (Aldershot: Ashgate Publishing Ltd., 2002), 38. The Group of Seven consists of Canada, the United States, Great Britain, France, Germany, Italy and Japan.

Sir William Clark, in his attempts through the winter and spring to pry an agenda from Prime Minister Bennett.⁴⁴ As opposed to the stately, ordered process of agenda preparation and consultation that preceded previous British-hosted meetings, a process that began months or even a year in advance, the Canadian process was late and haphazard. Indeed, had it not been for British pestering, there might not have been an agenda circulated in advance.⁴⁵

The source of the trouble was very likely Bennett's determination to personally control all of the major issues with which the government dealt. Imperial Conferences were, in Bennett's view, the responsibility of the Prime Minister.⁴⁶ On 19 March, Sir William Clark reported to his authorities that Bennett had told him that there would be no formal agenda until after the end of the parliamentary session in May: "The fact is that the Prime Minister is waiting as usual until he can find time to deal with matters himself, and he talks of there being ample time after Parliament has adjourned. This is taking serious risk as the session may be prolonged beyond the first week in May."⁴⁷ As of late March, according to Clark's reports, Bennett was unsure what outcomes he was seeking to achieve. In London in 1930, Bennett had wanted working groups to begin studying areas where imperial preference could be granted with the object of being ready in a year's time to begin implementation. In late March 1932, however, he reportedly told Clark that he was thinking of a short working conference on trade and currency.⁴⁸ The next week he told Clark that he was thinking of a conference to focus on "principles rather than details."⁴⁹ Clark was probably correct in assuming that Bennett's indecision was

⁴⁴ Drummond, *Imperial Economic Policy*, 209-211.

⁴⁵ *Ibid.*, 209.

⁴⁶ Chapter 3, 113.

⁴⁷ Drummond, *Imperial Economic Diplomacy*, 210.

⁴⁸ Ollivier, 279-280.

⁴⁹ Drummond, *Imperial Economic Policy*, 210.

“influenced in part by his difficulties in getting down to preparatory work.”⁵⁰ Much of the winter of 1932 was taken up with Parliamentary issues. In any event, a draft agenda for the conference was not sent until 24 May. Parliament prorogued on 26 May 1932. The final agenda was not sent until 7 July, by which time the Australian, New Zealand and South African delegates were already en route to the Conference.⁵¹

Despite the impatience evident in Clark’s communications with his authorities, those authorities did not appear to be overly concerned with the tardiness of the agenda. The British Government had been having its own difficulties resolving internal divisions. Although the National Government was dominated by the Conservatives, it was nevertheless still a three-party government. The difficulty of reconciling the free-trade Liberals and Labour ministers with the “imperial vision” Conservatives was evident in the introduction of the Import Duties Act in early 1932. Prime Minister MacDonald, in what Snowden called a “constitutional revolution,” allowed the Liberal ministers to oppose the tariff and thus breach cabinet solidarity.⁵²

Ian Drummond describes the attempts the British made to arrive at clearly articulated positions in time for the Ottawa Conference, all for nought. Eight months before the Conference, the British had hoped to have more or less negotiated all agreements beforehand so that the Conference would be more to ratify agreements as opposed to negotiate them.⁵³ As a result, on 13 July, “[t]he delegation sailed with full power to negotiate – and in full confusion about the terms it might or might not accept.”⁵⁴ The slapdash character of British preparations is evident

⁵⁰ Ibid., 210.

⁵¹ Ibid., 208; Waite, *In Search*, 137 and John Boyko, *Bennett: The Rebel Who Challenged and Changed a Nation* (Fredericton: Goose Lane Editions, 2012), 249.

⁵² Philip Viscount Snowden, *An Autobiography Vol. II, 1919-1934* (London: Ivor Nicholson and Watson Ltd., 1934), 1012-1014.

⁵³ Drummond, *Imperial Economic Policy*, 217.

⁵⁴ Ibid., 217.

in a conversation Stanley Baldwin, who was to lead the British delegation, had with his friend and confidant Thomas Jones just over a week before the delegation departed for Ottawa:

No one knows what Bennett will do. He will want the Conference to be a success. I shall try and keep to the big things on which Canada can help us; iron and steel, coal, cotton, and wool. If we could divert some of her trade with America in these four groups it would help. Kipling tells me it is infernally hot in August out there. I'll have a good team. We'll meet on the boat every morning and try to thrash things out.⁵⁵

Delegates arrived in Ottawa not knowing what the final product would be, whether it would be a single, multilateral agreement or a series of bilateral agreements, and whether there would be specific agreements or general statements of principle.⁵⁶ Indeed, it was not until a week into the Conference that Walter Runciman would tell Mackenzie King, "They have given up a multilateral agreement etc., will work only for bi-lateral agreements."⁵⁷

The Conference the set up five committees to examine matters relating to:

1. Promotion of Trade within the Commonwealth
2. Customs Administration
3. Commercial Relations with Foreign Countries
4. Monetary and Financial Questions
5. Methods of Economic Cooperation

It consisted of five plenary meetings, which, given the size of the delegations, had to be held in the House of Commons chamber. In addition, there were five or six Heads of Delegation meetings,⁵⁸ 20 committee meetings and 29 sub-committee meetings. Finally, there were large

⁵⁵ Thomas Jones, *A Diary with Letters, 1931-1950* (London, New York, Toronto: Oxford University Press, 1954), 45-46.

⁵⁶ Drummond, *Imperial Economic Policy*, 220.

⁵⁷ King Diary, 28 July 1932.

⁵⁸ Ollivier, 360, says there were five, while Drummond says there was a total of eleven plenary and Heads of Delegation meetings.

numbers of bilateral meetings, where negotiation of the trade agreements actually took place. The five Committees did produce reports in their respective areas; these, however, were mostly anodyne. The real work of the Conference was done in the bilateral negotiations. Drummond lists 81 bilateral negotiating meetings, making for 112 meetings in the 32 days that the British delegation was in Ottawa. Thus, on average, the British delegation had three bargaining conferences per day in addition to the formal meetings. In addition, there were numerous social events ranging from the opening dinner of 600 (a Roman feast, according to Mackenzie King⁵⁹) to luncheons to private dinners with invited guests. In the middle of the Conference, many of the delegates went on a four-day trip to see the opening of the Welland Canal. The Conference was thus extremely demanding and would have been even had it been conducted in an atmosphere of friendship and trust. This one was not.

III. Atmospherics

The Ottawa Conference displayed the advantages and disadvantages of a diplomatic “big event.” On the plus side, it was a source of prestige for Bennett and indeed for the British Empire. One of the reasons Bennett wanted to host the meeting in Ottawa was to enhance his international stature.⁶⁰ The possibility that the British Empire, which comprised one-quarter of the world’s land area and one-quarter of the world’s population, might form a trade bloc was regarded as possibly a development taken seriously by many other countries. At the same time, a high-profile meeting of the sort of the Ottawa conference generates pressure for accomplishments that statesmen can point to as evidence of the success of the meeting, and indeed the Ottawa meeting did lead to public expectations of significant results. The Canadian

⁵⁹ King Diary, 21 July 1932.

⁶⁰ Grattan O’Leary, *Grattan O’Leary: Recollections of People, Press, and Politics* (Toronto: Macmillan of Canada, 1977), 70-71.

correspondent of the *New York Times* in a preview of the conference wrote, “No event in many years has so gripped the imagination of the Canadian people. In fact, so confident is the public expectation that the conference is to mark the definite turning point from depression into prosperity that writers and speakers are finding it desirable to warn the people.”⁶¹ Sunday, 24 July 1932 was declared a national day of prayer for the Conference.⁶² On the other hand, a badly planned conference can set back relations and create bitterness. The pressure to achieve results can also be a disadvantage. The possibility of major agreements being negotiated increases the incentives for interested parties and pressure groups to make their influence felt.

The meeting was attended by representatives of nine Empire entities: Great Britain, Australia, New Zealand, Canada, South Africa, Newfoundland, Ireland, Southern Rhodesia and India. Only Canada, Newfoundland and Southern Rhodesia were represented by their heads of government, but all were represented by senior ministers.⁶³ For Canada, of course, the key interlocutor was Great Britain. Although Prime Minister Ramsay MacDonald did not attend, the British did, nevertheless, send a very impressive delegation, including seven cabinet ministers.⁶⁴ It was, reported the *New York Times*, a delegation the like of which for strength and influence Great Britain had not sent out since the conclusion of the peace.⁶⁵ The delegation was led by Stanley Baldwin, the former Conservative Prime Minister and the current Lord President of the Council in the National Government. Also on the delegation were Chancellor of the Exchequer

⁶¹ V.M. Kipp, “Empire Conference Basis of High Hopes,” *New York Times*, 19 June 1932, E6.

⁶² “City Bows in Prayer for Success of Imperial Conference; Churches Are Unit, Joining All Canada In Fervent Appeal,” *Globe*, 25 July 1932, 9.

⁶³ Ollivier. 357-359 lists the delegates. Australia and New Zealand, for example, were represented by Stanley Bruce and J.G. Coates respectively; both of whom were ministers in the current governments of their countries and former prime ministers. South Africa was represented by its Finance Minister N.C. Havenga.

⁶⁴ Stanley Baldwin reportedly told Mackenzie King that MacDonald “liked the European side of things and handled them very well.” MacDonald had successfully chaired the Lausanne Conference in June-July 1932. King Diary, 1 August 1932.

⁶⁵ “Britain Has Own End To Serve At Ottawa,” *New York Times*, 17 July 1932, E4.

Neville Chamberlain, Secretary of State for Dominion Affairs J.H. Thomas, Secretary of State for War Viscount Hailsham, Secretary of State for the Colonies Sir Philip Cunliffe-Lister, President of the Board of Trade Walter Runciman, and Minister of Agriculture and Fisheries Sir John Gilmour. The delegations also included a large number of advisers, secretaries and assistants. In total, then, the delegations numbered some 300 people.

Many non-Empire countries also sent observers to Ottawa.⁶⁶ The United States, for example, sent observers from the State and Commerce Departments. The State and Commerce representatives recognized that the United States would be the outsider most affected by whatever was negotiated in Ottawa.⁶⁷ Before the meeting, representatives of the State and Commerce Departments met to discuss a strategy for the Ottawa meeting and coordination of their efforts in Ottawa. Although Bennett had never used the language of retaliation when discussing his tariff policy, American officials recognized that the Ottawa meetings would be the principal response to the Smoot-Hawley tariff. In May, an official in the American legation in Ottawa reported “a quiet but definite undertone of antagonism and bitterness toward United States trade policy” in much of the public discussion of the upcoming Ottawa meeting.⁶⁸ Reporting from the Conference itself on 16 August, Pierre Boal, the American *Chargé d’Affaires* in Ottawa said, “most of the people I have talked to have not failed to refer to our tariff and to accuse it of starting the world movement toward restriction of trade.”⁶⁹

⁶⁶ See, for example, “Dutch Have Stake in Ottawa Parley,” *New York Times*, 21 July 1932, 10, which lists some of the countries that had sent observers, including the Netherlands, Belgium, Norway, Sweden and Denmark. See also “Japan Fears Stoppage of Her Trade With Empire,” *New York Times*, 24 July 1932, 16, detailing Japan’s observation of the Conference.

⁶⁷ Kottman, *Reciprocity*, 35.

⁶⁸ Richard N. Kottman, *Diplomatic Relations of the United States and Canada, 1927-1941*, Doctoral Dissertation submitted to Vanderbilt University, August 1958, Microfilm, 204.

⁶⁹ Quoted in Kottman, *Reciprocity*, 37.

The United States administration thus made no official communication to either Ottawa or London on the subject of the Ottawa Conference. Rather, the strategy adopted was to keep a low profile and not evince too much interest in the proceedings for fear of stoking nationalist feelings in Canada. The State and Commerce officials hoped that the American press and American business interests would also not behave irresponsibly in Ottawa; in fact the Commerce Department attempted to discourage American firms and business associations from sending representatives to Ottawa.⁷⁰ There was, however, some public messaging. On 10 July, Assistant Secretary of Commerce Julius Klein, in a radio address over the Columbia Broadcasting System, wished the Conference participants success while drawing attention to the importance of United States trade and investment to both Canada and the British Empire. He pointed out that the United States in 1931 purchased 15 per cent more of Canada's exports than did the entire British Empire. Moreover, about a third of American investments abroad were in the British Empire, mainly in Canada and Newfoundland.

It is a strictly family party that is going to be held at Ottawa and, very properly, not even as close a relative as the United States will have any connection with it, but we shall have a good deal more than a sentimental interest in its outcome. ... There is a very real community of economic interests between the countries of the British Empire and the United States. And I do not think anyone will accuse us of hypocrisy, or even undue sentimentality, if we express a hope that the deliberations that will soon be under way up in that beautiful capital city that is so close to our own borders may be productive of genuinely beneficial results to our cousins in the British commonwealth of nations.⁷¹

Robert Putnam's description of bilateral negotiations as requiring three agreements -- one across the table and one on each side of the table -- is particularly apt for the Ottawa Conference.⁷² Approximately 200 representatives of various industries and associations

⁷⁰ Kottman, *Reciprocity*, 36.

⁷¹ "Sees Our Stake High At Ottawa Parley" *New York Times*, 11 July 1932, 2.

⁷² Robert D. Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," *International Organization* Vol. 2 No. 3 (Summer, 1988), 433, footnote 21.

travelled to Ottawa for the Conference and were particularly assiduous in following the negotiations and influencing them when they could. Leo Amery, for example, attended the conference not as part of the British delegation, but as President of the Empire Sugar Federation and a member of the Central Chamber of Agriculture, which had asked him to represent their interests.⁷³ Thus, at crucial times during the negotiations with the British, Bennett would also have to deal with representatives of potentially affected industries.⁷⁴

On the first day of the Conference, Bennett was elected Chairman of the Conference. The selection of the Prime Minister of the host country was viewed as customary, though the Ottawa meeting was the first Imperial Conference to be held outside of Britain. Bennett would prove to be a controversial choice, at least as far as the British were concerned as, instead of acting as a neutral chair, he more or less openly promoted Canadian positions. As was also customary, the host country provided the secretariat for the Conference. O.D. Skelton was named Secretary to the Conference, with John Read, the Department of External Affairs Legal Adviser, as his Deputy Secretary. The Canadian Secretariat has come under criticism for the lack of documentation of the Conference; according to C.P. Stacey, for example, the Ottawa Conference was “the worst recorded of all the Imperial Conferences.”⁷⁵ Perhaps the Ottawa Secretariat does suffer in comparison with the much larger and considerably more experienced British civil service, especially under the guidance of Sir Maurice Hankey. Nevertheless, it was called upon to do a monumental amount of work. It prepared and distributed 169 documents. The Dominion Bureau of Statistics prepared and tabled a six volume compilation of

⁷³ Amery, *My Political Life*, 81.

⁷⁴ See, for example, Charles A. Selden, “Bennett Attacked By Industrialists; Canadian Manufacturers Fight Concessions to Britain at Ottawa Empire Parley,” *New York Times*, 14 August 1932, 6.

⁷⁵ C.P. Stacey, *Canada and the Age of Conflict: A History of Canadian External Policies Volume 2: 1921-1948 The Mackenzie King Era* (Toronto, Buffalo, London: University of Toronto Press, 1981), 142.

Commonwealth trade statistics to inform the discussions.⁷⁶ The Conference ended with a vote of appreciation for O.D. Skelton and the Conference Secretariat “whose efficient and faithful services have assured the successful administration of the proceedings of the Conference.”⁷⁷

Perhaps from the Canadian point of view the most serious disadvantage of having to provide the Secretariat for the Conference was that the already thinly stretched Canadian bureaucracy was limited in the support it could provide Bennett during the negotiations. The British delegation appears to have reaped a considerable advantage in bilateral negotiations from the quality of advice it received from its civil service advisers. After the Conference, J.H. Thomas paid fulsome tribute to the civil service, especially Sir Horace Wilson, the principal economic adviser to the government.

Of the many services he has rendered to his country none, in my opinion, is equal to the invaluable aid he gave to the British delegation at the Ottawa Conference. We were battling daily with a mass of figures showing the effects of different trade agreements; Mr. Bennett would give us a table showing millions of dollars in our favour, but Sir Horace would produce a document that turned the surplus into a huge deficit.

The reader can well imagine the feelings of Mr. Bennett, who always referred to him as ‘Your Mr. Wilson,’ which I was ever ready to correct by saying ‘You mean ‘Our Sir Horace,’ Mr. Bennett.’⁷⁸

Similarly, Stanley Baldwin, in a letter to his friend J.C.C. (David) Davidson written from the Conference, said, “Our Civil Service is wonderful and they are the admiration of all.”⁷⁹ By contrast, Leo Amery, who was much more sympathetic to the Dominions and to Bennett in particular, took a distinctly less favourable view of the contribution of the British civil service: “Bennett told me afterwards that our Ministers were always leaning back on their officials, the

⁷⁶ “Trade Figures in Six Volumes Given to Ottawa Delegates,” *New York Times*, 22 July 1932, 10.

⁷⁷ Ollivier, 414.

⁷⁸ Thomas, 271.

⁷⁹ Stanley Baldwin letter to J.C.C. Davidson, 1 August 1932, in Philip Williamson and Edward Baldwin (eds.), *Baldwin Papers: A Conservative Statesman, 1908-1947* (Cambridge: Cambridge University Press, 2004, 297.

one exception being Cunliffe-Lister who had a complete grasp of his Colonial problems.” The Dominions, Amery claims, saw the British civil servants as hostile to the concept of imperial preference.⁸⁰

Another problem that plagued the negotiations was the lack of reliable data and a conceptual framework in which to treat the data.⁸¹ As a result, estimates of the value of the offers made in the negotiations often varied widely. On 5 August, for example, Bennett and Runciman had a heated discussion, part of which revolved around the Canadian offer on tariffs in the iron and steel industry – concessions which Bennett valued at \$40 *million*, while Runciman argued that \$750 *thousand* was nearer the mark.⁸²

In addition to the country delegates and industry representatives, approximately 200 journalists attended, many of whom were foreign journalists.⁸³ One of Bennett’s failings in his handling of the Conference was his failure to grasp the importance of the perceptions of the press in feeding public perceptions of the event. The press seemed to play a very active role in the events and was sometimes used by the various actors in Ottawa to advance their causes. Unfortunately, Bennett seems not to have been very adept at using the press to his advantage. Robert Manion, Bennett’s Minister of Railways and Canals, was asked to take responsibility for “the general supervision of the publicity arrangements and to act as minister in charge of press relations.”⁸⁴ He was assisted by, among others, Lester B. Pearson and Hugh Keenleyside from the Department of External Affairs and Arthur Merriam, one of Bennett’s personal secretaries. It was not an assignment Manion recalled with any fondness. In his memoir he wrote, “under no

⁸⁰ Amery, *My Political Life*, 84-85.

⁸¹ Drummond, *Imperial Economic Policy*, 285

⁸² Runciman memo quoted in Drummond, *Imperial Economic Policy*, 296.

⁸³ Manion, 341 says there were 100 journalists “from all over the world.”

⁸⁴ Ollivier, 359.

circumstances, or for no fee, would I accept again the position of liaison officer between any conference and the press, unless much more intelligence in the giving out of news was permitted than was the case in 1932.”⁸⁵ The problem was that Bennett himself decided what was to be given to the press, and his inclination was to give as little as he could. According to Canadian journalist Grattan O’Leary, Manion appeared to know “less than nothing about what was going on in the conference, and what little he knew he was not telling.”⁸⁶ Manion was understandably reluctant to appear before the press with little to say, so that Pearson, who knew even less, found himself delegated to handle most of the press conferences and enquiries. Pearson, came to rely on Malcolm MacDonald, who was Prime Minister Ramsay MacDonald’s son and part of the British delegation, for information. The result, Pearson relates was “Canadian press briefings that were not entirely useless but certainly not entirely Canadian.”⁸⁷ Neville Chamberlain and Walter Runciman also provided more or less complete briefings to the British press, so that British positions, which were usually opposed to Bennett’s, tended to get much wider circulation in the press..⁸⁸ Bennett was furious and believed that in speaking to the press, the British were guilty of treachery.⁸⁹

The press coverage of the Conference was not, however, completely anti-Bennett. Many of the newspapers of the day took strong positions in their editorials on the political and economic issues of the day. While the open expression of these views was generally kept to the editorial pages, the papers’ views were generally not too far below the surface in their coverage of news stories. In the case of the British papers, the Beaverbrook papers strongly reflected the

⁸⁵ Manion, 342.

⁸⁶ O’Leary, 71.

⁸⁷ Lester B. Pearson, *Mike: The Memoirs of the Right Honourable Lester B. Pearson, Volume I, 1897-1948* (Toronto and Buffalo: University of Toronto Press, 1972), 78.

⁸⁸ O’Leary, 71.

⁸⁹ Waite, 144.

Empire vision of their owner and were more favourable to Bennett. By contrast, the Liberal, Labour and moderate Conservative papers generally favoured free trade, especially in food and thus they took a pro-British position. Bennett even suspected that Geoffrey Dawson of the *London Times* was flattering him in order to make him more amenable to the British position.⁹⁰ Sometimes, editorial opinions could be expressed in particularly strong terms. On 5 August, Stanley Baldwin felt compelled to write Bennett to apologize for “the blackguardly article about you in the London ‘Star,’” declaring himself ashamed such an article would appear in an English paper. “[M]y personal hope is that it will affect you as little as I am affected by Lord Beaverbrook. I think the latter’s sponsorship of you has stirred the bile of the liberal press in London and a storm in the inkpot has been the result.”⁹¹

In Canada too, newspapers were clear in their political identification. Papers such as the *Montreal Gazette* and *Ottawa Journal* were clearly identified as Conservative organs, while the *Winnipeg Free Press* and *Toronto Globe* were well-known as Liberal supporters. The *Free Press* commanded particular respect in that it was acknowledged to be particularly thoughtful and influential in its views particularly on foreign policy issues.⁹² Bennett’s relations with the *Winnipeg Free Press*, its editor John W. Dafoe and journalists such as Grant Dexter were particularly virulent. Dexter’s coverage of the Conference particularly enraged Bennett, to the extent that after the Conference Bennett accused Dexter publicly of sabotaging the Canadian position at the Conference. A front-page story from the 16 August *Free Press* well illustrates why Bennett might harbour such suspicions.

⁹⁰ Ibid., 145.

⁹¹ Stanley Baldwin letter to R.B. Bennett, 5 August 1932, *Baldwin Papers*, 298.

⁹² Norman Hillmer and J.L. Granatstein, *Empire to Umpire: Canada and the World to the 1990s* (Toronto: Copp Clark Longman Ltd., 1994), 93. Douglas Owram, *The Government Generation: Canadian Intellectuals and the State, 1900-1945* (Toronto: Buffalo, London: University of Toronto Press), 156 and 185 lists Grant Dexter and John W. Dafoe as members of the intellectual elite that was beginning to influence policy in Canada in the inter-war period.

It is curious fact that Monday when conference agreements were in plain view, when serious obstacles had been removed – that innumerable rumours of deadlock and breakdown were in circulation. These rumours received sensational headlines in several Conservative newspapers of eastern Canada, and it became quite obvious Monday night that persons of importance, close to the Bennett government, were the sources whence they sprang.⁹³

The article then goes on to speculate that this might be a way of pressuring the British into making more concessions. In this case, the Conservative papers may have been better informed than Dexter. The Conference did in fact come close to “deadlock and breakdown” in the last few days, and the Canada-United Kingdom agreement was not concluded until early in the morning of August 20. This story may have been one of the factors that embittered the negotiations, as Neville Chamberlain suspected Bennett of leaking stories to the press to pressure the British, or as Chamberlain’s biographer put it, the British delegation was subject to attacks in the Canadian press “which it was believed the Canadian Government read without displeasure.”⁹⁴

Further contributing to the general climate of mistrust was the presence of what one might call “fifth column influences” or individuals from one country advising the representatives of another country to hold out against the demands of the government of his country. Leo Amery is the individual most often accused of this.⁹⁵ Amery was one of the principal “imperial visionaries” or “Empire Crusaders.”⁹⁶ Numerous accounts have him advising Bennett that the British Government’s position was not serious and that Canada should hold out against British demands. It is not clear how much influence Amery had. He was clearly on the side of the

⁹³ Grant Dexter, “Trade Pacts Near Completion,” *Winnipeg Free Press*, 16 August 1932, 1.

⁹⁴ Feiling, 212.

⁹⁵ See, for example, Baldwin letter to J.C.C. Davidson, 15 August 1932, in Williamson and Baldwin, 299, “Amery has done his best to stiffen some of the dominion delegates in their attitude and has generally been a first class impediment to progress.”

⁹⁶ “Imperial visionary” is the term used by Drummond, *British Economic Policy*, 36. The British ex-Member of Parliament and commentator on foreign policy, P.W. Wilson calls Lord Beaverbrook the “high priest” and Leo Amery his “eager acolyte” in the Empire Crusade. P.W. Wilson, “The British Empire Settles One Main Issue At Ottawa,” *New York Times*, 21 August 1932, XX3.

Dominions, and certainly expressed his views before and during the Conference, but his preference would have been for an Empire *Zollverein*, with free trade among the members of the empire. This was an anathema to Bennett. For his part, Amery denies he played much of a role at the Conference. In his diary for 17 August, he writes:

Had an answer from Neville [Chamberlain] accusing me of wrecking the Conference by inciting the Dominions to make impossible requests. If only he knew how little “inciting” I have done, and how meekly I have hung about in the hope I might be useful.... I am afraid in the state of collapse and almost hysteria which most of the delegations have reached under the pressure from Lossiemouth on one side and Bennett and Bruce on the other, they are fastening on me as the devil in the whole business.⁹⁷

On the other side, however, Mackenzie King may have been playing a similar role. After the 1930 Imperial Conference, King had written to influential members of the British Liberal Party, telling them that Bennett’s vision of Empire was not widely shared in Canada.⁹⁸ He conveyed the same message at Ottawa when the opportunity presented itself. On 30 July, for example, he had Lord Elbank and the British correspondent J.C. Cummings to dinner at Kingsmere. “I was perhaps a little too outspoken – saying Bennett wd. be defeated in the Conference were not a success & that Libs. wd. give what was being asked for.”⁹⁹ On 15 August, Neville Chamberlain was his guest. According to King’s diary, Chamberlain was “much displeased with Bennett and his methods” and hoped that King might be at the next Conference in England. “I told him as he was leaving,” King writes, “not to take Bennett’s bullying attitude too seriously & to stand up to his bluffs.”¹⁰⁰

⁹⁷ Amery, *My Political Life*, 86. Lossiemouth, Scotland was the home town of British Prime Minister Ramsay MacDonald.

⁹⁸ King Diary, 3 and 5 December 1930.

⁹⁹ King Diary, 30 July 1932.

¹⁰⁰ King Diary, 15 August 1932.

IV. Issues and Outcomes

The preliminary agenda that Bennett had circulated on 24 May struck the British authorities as extremely, perhaps overly, ambitious. Stanley Baldwin told the British House of Commons that “quite frankly that it is a tremendous agenda; there is hardly a subject which anyone could think of that is not somewhere or other on that agenda.”¹⁰¹ In fact there were three sets of issues that appeared to matter most: trade, which everyone wanted to talk about; currency and money, which everyone except Britain wanted to talk about; and imperial economic structures, which no one except Britain wanted to talk about. The Ottawa Conference was supposed to be about trade, and indeed it is remembered mostly for the Ottawa Agreements which established a sort of imperial preference system. Coming as it did, however, less than a year after Britain and most members of the Commonwealth had abandoned the international gold standard, many people were also looking to the Conference to accomplish something concrete in the sphere of international monetary relations. In fact the conference did not get far on monetary relations. The British authorities were anxious to avoid a conversation that might call for a premature return to the gold standard. The Canadian Government, which had insisted that monetary issues be included on the agenda, was not really prepared to discuss them. Moreover, the planned League of Nations International Monetary and Economic Conference planned for later in the year or in 1933 provided participants in the Ottawa an excuse to postpone a serious consideration of monetary issues. The British floated the idea for the creation of improved mechanisms for consultations between Imperial Conferences. They did so, however, knowing that there was little taste among the Dominions for a more centralized economic Empire.

¹⁰¹ British Parliamentary Debates, 16 June 1932, 650.

(a) Trade

The Ottawa Conference began on a hopeful note. In his opening remarks as Chairman of the Conference, Bennett noted that the United Kingdom had adopted “the principle of tariffs as an instrument of economic advancement,” so that policies throughout the Empire were now uniform. The time had therefore come when the members of the Empire could fulfil the hope for closer economic association. When he added, referring to Neville Chamberlain, “And that the son of the greatest protagonist of Empire trade is today one of the delegates to this Conference seems to me prophetic,” Dana Wilgress writes, “a noticeable thrill passed through the audience.”¹⁰²

While it is true, however, that with the Import Duties Act of February 1932 the British had formally abandoned free trade and thus appeared to move in the direction desired by the Dominions, in other ways their stance had hardened and taken a direction antithetical to those of the Dominions, and Canada in particular. What had changed for the British Government was that unemployment had become the issue that mattered to it. Stanley Baldwin told Mackenzie King on 1 August 1932 that “their [the British representatives] problem was ‘unemployment,’ that if in a year or two employment bettered, the Conference wd. have been a success, if it became no better, it was hard to say what might result.”¹⁰³ A few days later, Walter Runciman told Bennett, “our public in the United Kingdom of all parties would examine critically any agreements reached by us, and *one test would be applied to all our transactions: how much extra employment did the extension of our trade in the Dominions represent.*”¹⁰⁴ [My emphasis] Thus,

¹⁰² Ollivier, 393 and Wilgress, 94.

¹⁰³ King Diary, 1 August 1932.

¹⁰⁴ Memorandum of Walter Runciman Conversation with R.B. Bennett, 5 August 1932, in Drummond, *Imperial Economic Policy*, 296.

as Ian Drummond says of Neville Chamberlain, “neither he nor any other British politician seems to have seen the Ottawa Conference in terms other than tariff bargaining and preferential concessions.”¹⁰⁵

The Depression had hardened positions as each country sought to maximize the gains it could reap from the Conference. Reaching agreement, however, would have been difficult in any case because of the fundamentally different interests at stake. Historically, the pattern of imperial trade relations had been one where the colonies and Dominions supplied Britain with food and raw materials while Britain supplied them with manufactured goods. Since the Dominions traded little with each other, there was a natural commonality of interests among the Dominions. As the Dominions attempted to industrialize they conflicted with the interests of Britain. Hence, the 1925 report of the Balfour Committee on Industry and Trade found that since 1914, the main increases in tariff rates against British exports had been within the British Empire. Countries outside the Empire had altered their tariffs on balance slightly in favour of Britain.¹⁰⁶

The British Government had been warning the Dominions since February that it expected concessions from them as a condition for maintaining their exemption from the duties that was set to expire on 15 November.¹⁰⁷ The British Government’s expectations were spelled out in more direct terms by Stanley Baldwin in a speech which, according to the *New York Times*, created a sensation in the House of Commons on 16 June 1932.¹⁰⁸ He began by saying that the Ottawa Conference came at a time “when we are definitely at the parting of the ways. It will be impossible for things to be allowed to drift any longer. You have either to advance in the

¹⁰⁵ Drummond, *Imperial Economic Policy*, 30.

¹⁰⁶ H.V. Hodson, “Before Ottawa,” *Foreign Affairs* Vol. 10 No. 4 (July 1932), 590. With the onset of the Great Depression, of course, virtually all countries raised tariff rates.

¹⁰⁷ Drummond, *Imperial Economic Policy*, 187-188.

¹⁰⁸ Charles A. Selden, “Dominions Warned By Britain On Trade,” *New York Times*, 17 June 1932, 5.

direction of closer fiscal relationship within the Empire or you have to drift apart.”¹⁰⁹ He warned the House that “in what I am going to say I should not fail to put the British point of view, which I think is sometimes slurred over but which should be clear at home and should go out to the Dominions.”¹¹⁰ He specified the Britain’s objective would be “freer trade or reciprocal free trade within the Empire, or the nearest practicable approach to it.”¹¹¹ That principle was already embodied in the Import Duties Act, which had been designed to lead up to Ottawa.¹¹² The Dominions were put on notice that further concessions would be expected from them.

Baldwin made it plain that he would be taking aim at some of the protectionist practices that the Dominions had adopted to foster their own development. In a reference which few observers in Canada, the most industrially advanced of the Dominions, could not fail to appreciate, Baldwin stated:

I do think, without specifying names, that at times and in places in the Dominions this policy of exclusion, of trying to develop industrially, has been pushed farther than is helpful to the Empire or to the Dominion that does it. ... We shall ask them to consider whether or not in their interests as well as ours they may not in some directions have gone a little too far and a little too fast in industrial development.¹¹³

He also pointed out that Britain was not a big enough market to absorb the Dominions’ exportable surpluses of wheat and wool, so that while increased trade within the Empire was desirable, participants in the Ottawa Conference should also be seeking to increase trade with the rest of the world.¹¹⁴ Thus, the general direction of the Conference should be one of lowering tariffs. In this, Baldwin was close to the Canadian Liberal position as set out in the Dunning Budget of May 1930. Indeed, after one of the many official dinners during the Conference, King

¹⁰⁹ British Parliamentary Debates, 16 June 1932, 649.

¹¹⁰ British Parliamentary Debates, 650.

¹¹¹ British Parliamentary Debates, 654-655.

¹¹² British Parliamentary Debates, 655.

¹¹³ British Parliamentary Debates, 654.

¹¹⁴ British Parliamentary Debates, 651.

took the occasion to tell Baldwin, “I could support everything he had said. From the Liberal point of view re trade – We wanted more trade with Britain & freedom to trade with other countries as well.”¹¹⁵

The British position as set out by Baldwin ran directly counter to the direction Bennett had set for Canadian trade and development policy. Part of the threat of the Smoot-Hawley tariff, in Bennett’s view, was that it would limit Canada to being a supplier of raw commodities to the United States. Bennett’s response was to emulate what he saw as the lesson of American economic history and use tariffs to develop a diversified industrial base. He would be willing to trade, but only to acquire goods that Canadian producers could not supply. Bennett’s development strategy was in principle defensible. He was essentially making the “infant industry” argument, which most economists recognize as a possibly justifiable use of tariffs.¹¹⁶ For this strategy to be successful, however, the government must be ready to deny protection to those industries where the country will never be competitive and to lift protection when it is no longer required.

To this end, in December 1931, in preparation for the Ottawa Conference, Bennett had asked the Canadian Manufacturers Association to prepare a list of products that could not be produced in Canada that would be the basis of negotiation with Britain. As might be expected, Canadian manufacturers saw themselves as a productive, and potentially even more productive, lot. They appeared to include not only the articles they were producing but also articles they thought they might produce some day. As a result, the list was very long indeed. Moreover, the list was not sent to Bennett until 17 June, so that the time available for seriously scrutinizing the

¹¹⁵ King Diary, 23 July 1932.

¹¹⁶ Paul Krugman and Maurice Obstfeld, *International Economics: Theory and Policy* Sixth Edition (Boston, New York, San Francisco: Addison Wesley, 2003), 256-258.

list was limited.¹¹⁷ To compound matters, Bennett selected R.W. Breadner, the commissioner of customs, to conduct the detailed negotiations for Canada. One of Breadner's qualifications for the position of customs commissioner was that he had been an agent of the Canadian Manufacturers Association.¹¹⁸ Bennett proved himself incapable of denying protection to virtually any industry that asked for it. On 2 August, Bennett for the first time since the Conference began, made a public statement and answered reporters' questions. The droll headline attached to Charles Selden's report of the session captures Bennett's belief that he should yield nothing in the way of protection for Canadian industry: "Bennett Reaffirms Protection Policy – Canada Wants to Aid Britain, He Says, But Without Harm to Any Efficient Industry – *Adds All Are Efficient.*"¹¹⁹ [My Emphasis]

Bennett also wanted increased access to the British market and better prices for Canadian farm products in that market. Wheat, which had been Bennett's major concern at the 1930 Conference, was less of an issue this time as he recognized that the British market would not solve Canada's wheat surplus problem. A 21 July *New York Times* story quotes a wheat delegate from western Canada, "If England bought only from us we would still have two bushels left on our hands for every bushel exported to Great Britain."¹²⁰ A larger issue for Bennett, one that involved wheat, but other commodities as well, was the Soviet Union. The Soviet Union in recent years had claimed a significant share of the British market in several raw commodities, a result, Bennett claimed, of dumping. In February 1931, Canada had banned imports of Soviet

¹¹⁷ Drummond, *Imperial Economic Policy*, 192.

¹¹⁸ Waite, 139.

¹¹⁹ Charles A. Selden, "Bennett Reaffirms Protection Policy," *New York Times*, 3 August 1932, 8. When asked which Canadian industries were efficient, Bennett replied, "We have not risen to the rank of fifth manufacturing country in the world with the third largest per capita of exports without having built up an industrial system that is efficient throughout."

¹²⁰ Charles A. Selden, "Nine British Nations to Open Conference Today," *New York Times*, 21 July 1932, 1.

coal, wood pulp, pulpwood, lumber, timber, asbestos and furs.¹²¹ At the Ottawa Conference, Bennett made numerous attacks on Soviet commercial practices. At a 25 July meeting of the Committee on Trade Promotion, Bennett claimed that Canadian business was “profoundly affected” by Russian competition. Three aspects of Russian trade concerned him: the funds acquired by trade would aid Russia in its avowed purpose of destroying the British Empire; with state control of the economy, its prices bore little relation to its costs of production; and labour conditions in Russia were “tantamount to slavery.”¹²² J.H. Thomas thought Bennett’s concern with Russia lay at the source of the difficulties he created for the British -- “Sometimes I am taken with the notion that ‘the Russian menace’ became an obsession with him and warped his judgment in other matters.”¹²³

The bilateral talks therefore took place in an atmosphere where there were fundamental differences in national interests, where the positions of the interlocutors were poorly prepared and uncertain, and where the negotiators were under pressure to produce agreements yet respect the wishes and needs of their constituents. The pressure was even greater because of the publicity given to the talks. At the same time the data they were dealing with was suspect, so that it was difficult to assess the various offers. It is little wonder then that the talks were often bitter, characterized by accusations of incompetence, bad faith and treachery. The British side put much of the blame on Bennett. The British themselves, however, were not blameless. Amery’s account of the Conference contains numerous instances of Dominion delegates asking

¹²¹ R.A. MacKay and E.B. Rogers, *Canada Looks Abroad* (London, Toronto, New York: Oxford University Press, 1938), 176.

¹²² “Extracts from the Minutes of the Committee on Trade Promotion, Second Meeting, 25 July 1932, in Documents on Canadian External Relations Vol. 5, 1931-1935, 51.

¹²³ Thomas, 210.

him whether the British were really serious about wanting to deal.¹²⁴ Baldwin's papers contain a memorandum from Stanley Bruce, the leader of the Australian delegation. When informed by Baldwin that the British Government could not impose a duty on meat imports, Bruce declared he had no choice but to leave the Conference. Baldwin pleaded with him to stay and not wreck the Conference. Bruce agreed, but:

I condemned the treachery of the U.K. Government in having misled us. Baldwin's only defence was that the British Government was a composite one, with Liberal and Labour representation and that it was impossible to get agreement on a duty. I said they had known that all along. To have misled us into believing they would put a duty on meat was an absolute outrage.¹²⁵

In the end, the negotiators managed to conclude twelve bilateral agreements. Canada concluded agreements with Britain, Ireland, South Africa and Southern Rhodesia. The five-year agreement with Britain was the most important one for Canada. Drummond's *Imperial Economic Policy* goes through the Canada-United Kingdom agreement and the difficult negotiations leading up to it in considerable detail that need not be repeated here.¹²⁶ The points to be stressed here are that there was very hard bargaining that was conditioned by very little imperial sentiment on either side – the agreement was initialled at 1:20 a.m. on the last morning of the Conference. That agreement was reached at all was due in large measure to Bennett's desire to avoid a complete collapse of the Conference; he helped his cause by taking the negotiations out of the hands of R.W. Breadner and assigning them to Hector McKinnon, Canada's commissioner of tariff.¹²⁷ McKinnon was much less of a protectionist than was

¹²⁴ Amery, *My Political Life*, 85-86.

¹²⁵ Baldwin Papers, 298.

¹²⁶ The key negotiations and outcomes for all the British agreements are outlined in Drummond, *Imperial Economic Policy*, 254-279. The Canada-United Kingdom Agreement is reprinted in Ollivier, 418-421. The other Canadian agreements are also included in Ollivier, 421-424.

¹²⁷ Wilgress, 96 and O. Mary Hill, *Canada's Salesman to the World: The Department of Trade and Commerce, 1892-1939* (Toronto: Institute of Public Administration; Montreal and London: McGill-Queen's University Press, 1977), 527-528.

Breadner. McKinnon, Wilgress and Norman Robertson from External Affairs concluded successful negotiations with the British. Emerging from the Conference, then, Bennett believed he had been well served by Skelton and the civil service.¹²⁸

Both sides believed they had grievances with the other side that they wanted addressed. Both strove to maintain their advantages. Both sides, however, saw the necessity of being able to pronounce the Conference a success and the Empire preserved. Both sides therefore compromised, although the consensus is that the British side gave much more.¹²⁹ Canada agreed to 223 substantive tariff changes to increase British preference in the Canadian market.¹³⁰ Of these preference increases, 139 were obtained not by reducing tariffs against British goods, but by increasing tariffs against foreign goods.¹³¹ As with American exporters, the troublesome aspect of the Canadian tariff for British exporters was the arbitrary application of valuation procedures and additional charges, such as the “exchange dumping” duty Canada levied against Britain as a result of the depreciation of sterling. Several clauses of the Canada-United Kingdom agreement are designed to address these issues. The Canadian Government pledged to staff the Canadian Tariff Board, a judicial and fact-finding body that was created in 1931. This would supposedly enable British producers to ensure that they were being fairly treated in the application of Canadian duties. The government, however, was under no obligation to implement the Tariff Board’s recommendations.¹³² Under Article 17 of the agreement, Canada also undertook to remove all existing surcharges on imports from the United Kingdom “as soon

¹²⁸ Michael Hart, *A Trading Nation: Canadian Trade Policy from Colonialism to Globalization* (Vancouver: University of British Columbia Press, 2002), 110-111 and Duncan McArthur, “Current Events,” *Queen’s Quarterly* Vol. 40 No. 1 (February, 1933), 152-153 and Hill, 529.

¹²⁹ Drummond, *Imperial Economic Policy*, 31 and Robert B. Stewart, “Instruments of British Policy in the Sterling Area,” *Political Science Quarterly* Vol. 52 No. 2 (June, 1937), 201.

¹³⁰ Commons Debates, 12 October 1932, 111-112.

¹³¹ Commons Debates, 17 October 1932, 269.

¹³² Commons Debates, 12 October 1932, 114.

as the finances of Canada will allow” and “to give sympathetic consideration to the possibility of reducing and ultimately abolishing the exchange dumping duty in so far as it applies to imports from the United Kingdom.”¹³³ A striking feature of some of the key Canadian commitments is that they were conditional and set to take place at some point in the future. This would not escape the notice of British observers for long.

In return, Canada kept the exemption it enjoyed from the duties imposed by the Import Duties Act. Britain also agreed to impose a duty on foreign wheat, provided that Canadian wheat was sold in Britain at the world price. This was more of a symbolic move since it did nothing to raise the price of Canadian wheat. Canada was also given a quota for bacon and ham and provision was made to allow for Canadian exports of live cattle. Perhaps the most important issue for Bennett was the provision in Article 21 to protect the preferences granted in the agreement from being frustrated by “State action on the part of any foreign country.”¹³⁴ Although the Article does not name the Soviet Union, it was clearly the target.

(b) Money and Currency

The addition of monetary and financial questions to the agenda of the Ottawa Conference excited some interest in the international academic community. John Maynard Keynes and Gustav Cassel thought the formation of a currency bloc headed by Britain could lead to progress in resolving the international currency chaos that had erupted in the early 1930s. Empire visionaries, such as Leo Amery saw the prospect of some form of Empire currency arrangement as another means of strengthening the bonds between Britain and the Dominions. The monetary issue appeared on the agenda as a result of a resolution passed in the Canadian parliament. As

¹³³ Ollivier, United Kingdom-Canada Trade Agreement, 420.

¹³⁴ Ollivier, 421.

the Depression deepened and gripped international financial markets, especially after the British departure from the gold standard, monetary policy became an issue that Canadian politicians debated seriously. On 25 February 1932, Parliament passed a resolution calling for Canadian representatives at the Conference to “initiate and support measures for the stabilization of currencies of all British countries in such manner as to facilitate trade between the component parts of the empire and to promote economic unity therein.”¹³⁵ It was not clear, however, what form the Conference discussion would take; as late as mid-April, Bennett was telling the British High Commissioner that he expected Britain to lead the discussion.¹³⁶ In the provisional agenda he sent on 24 May, Bennett proposed the following: “Consideration of the desirability and feasibility of taking steps to restore the general price level and to stabilise exchange, including consideration of monetary standards.”¹³⁷

The proposed wording raised red flags for the British. Since Britain’s departure from the gold standard in September 1931, responsibility for the management of sterling had passed from the Bank of England to the Treasury. British Treasury officials were reluctant to see monetary policy issues discussed in Ottawa for three reasons.¹³⁸ Firstly, they feared pressure for a premature return to the gold standard. Secondly, they feared there would be pressure for inflationary policy. Thirdly, they feared that moves toward an Empire currency or coordinated monetary policy would lead to demands by the Dominions for a say in British monetary policy. Since the departure from the gold standard, the British economy had begun to show signs of recovery and Treasury had no wish to jeopardize this with changes to monetary policy.

¹³⁵ Commons Debates, 25 February 1932, 514.

¹³⁶ Drummond, *Imperial Economic Policy*, 214.

¹³⁷ *Ibid.*, 215.

¹³⁸ Ian M. Drummond, *The Floating Pound and the Sterling Area, 1931-1939* (Cambridge: Cambridge University Press, 1981), 15-16.

Moreover, they had no firm idea what the appropriate exchange rate was. Nor did they wish to see their freedom of action limited by commitments to the Dominions. With its mention of steps to restore the general price level, exchange stability and monetary standards, the Canadian proposal probably raised all three fears. The British thus proposed a more general discussion. The final, compromise wording was: "Consideration of existing inter-relationships of the various currencies and monetary standards of the Empire, and of the desirability and feasibility of taking steps to restore and stabilize the general price level and to stabilize exchange."¹³⁹

In his 16 June speech, Stanley Baldwin set down a number of markers before the Conference with respect to British monetary policy. While he welcomed the discussion of currencies in Ottawa, he wanted "to clear the air" by mentioning points on which the British authorities were agreed. Firstly, they did not want to see a rise in the value of the pound. Secondly, they did want to see a rise in wholesale prices, but not a "running away of retail prices." Thirdly, they had no intention of returning to the gold standard as long as "gold behaves itself as it is behaving." Fourthly, the policy of Britain was "cheap money and an abundant supply of money, which will produce an effect on our prices in the long run."¹⁴⁰

This was the line that the British delegation followed in Ottawa. The issue was discussed in the Committee on Monetary and Financial Questions, which was chaired by the Canadian Minister for Trade and Commerce, H.H. Stevens. Bennett was the lead Canadian representative on the committee, while Neville Chamberlain was the lead British representative. The committee met five times and produced a report that echoed the points made by Baldwin in

¹³⁹ Ollivier, 371.

¹⁴⁰ British Parliamentary Debates, 16 June 1932, 657-658

June.¹⁴¹ It concluded that the primary monetary action aimed at raising prices should be the creation and maintenance, within the limits of sound finance, of conditions such as low rates of interest and an abundance of short-term money to promote a revival of enterprise and trade. The report also signalled, however, that there were non-monetary obstacles to a recovery and urged action on that front. The report recognized that the ultimate aim of monetary policy should be the restoration of a satisfactory international monetary standard that would maintain stable exchange rates and ensure the smooth and efficient working of international trade and finance. The report, however, did not make any recommendations on the subject in view of the fact that the question was to be discussed at the World Economic Summit. In the meanwhile the Conference considered the possibility of achieving more stable exchange rates by creating an area of stability among countries regulating their currencies in relation to sterling and by having Britain avoid wide day-to-day fluctuations between sterling and gold.

Although the Canadian Government had asked for the issue to be discussed, it did not have a strong position that it was prepared to push. Bennett had initially resisted the downward pressure on the Canadian dollar in the fall of 1931, and abandoned the gold standard only when forced to. His chief concern was still that Canada should preserve its credit in international markets. For most of 1932, the Canadian dollar floated about midway between the British pound and the American dollar. Some Canadian economists, such as T.R. Noble and Graham Towers of the Royal Bank, were advocating a further decline in the Canadian dollar to the level of the pound. In anticipation of the Conference discussion, William Clifford Clark was hired in April 1932 to write a brief on monetary policy; in July he became a special adviser on the Canadian delegation. His brief argued that the Canadian dollar should not be tied to the pound but should

¹⁴¹ The complete text of the report is reproduced in Ollivier, 372-374.

continue to float for the time being.¹⁴² Clark's real priority was that Canada should establish its own central bank. The Conference report thus suited Canada's purposes.

The initial response to the report was not enthusiastic. Gustav Cassel was naturally disappointed. He said Chamberlain was reluctant to take the lead, so that the Ottawa resolution on monetary policy was thus limited to the level of recommendations of the British delegation which, he guessed, did not satisfy the Commonwealth delegations.¹⁴³ The prospect of the World Economic Conference provided delegates with a convenient excuse to postpone the taking of any action.¹⁴⁴ Floyd Chalmers on the *Financial Post* called the report innocuous.¹⁴⁵ Drummond's initial characterization of the Committee was that "thanks to Chamberlain and his Treasury coaches, this body was as meaningless as the other four [Committees]."¹⁴⁶ He later modified his position somewhat, conceding that it was useful in that it was the first public statement of the British position with respect to gold and the gold standard. More recently, economic historians such as Peter Temin and Barry Eichengreen argue that avoiding a premature return to the gold standard was the right policy. If they would fault the British Government it would be for not taking advantage of the freedom provided by the floating exchange rate to adopt a more expansionary policy stance.¹⁴⁷

¹⁴² Robert Bryce, *Maturing in Hard Times: Canada's Department of Finance Through the Great Depression* (Kingston and Montreal: McGill-Queen's University Press, 1986), 81; Ian M. Drummond, *The Floating Pound*, 65-69; and Robert A. Wardhaugh, *Behind the Scenes: The Life and Work of William Clifford Clark* (Toronto, Buffalo, London: University of Toronto Press, 2010), 62-63.

¹⁴³ Cassel, *Downfall*, 97.

¹⁴⁴ Cassel, *Downfall*, 98.

¹⁴⁵ Floyd S. Chalmers, "The World Economic Crisis and the Canadian Monetary Situation," in Vincent Massey (ed.) *The Liberal Way: A Record of Opinion on Canadian Problems as Expressed and Discussed at the First Liberal Summer Conference, Port Hope, September 1933* (Toronto and Vancouver: J.M. Dent & Sons, 1933), 18.

¹⁴⁶ Drummond, *British Economic Policy*, 228.

¹⁴⁷ Peter Temin, *Lessons from the Great Depression: The Lionel Robbins Lectures for 1989* (Cambridge Mass.: MIT Press, 1989) and Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919-1939* (New York and Oxford: Oxford University Press, 1995).

It is easy to fault politicians for a lack of ambition or foresight on monetary policy at this time. There were, however, serious obstacles for new ideas to overcome before they could be reflected in policy. Politicians, for example, relied on advisers in the bureaucracy. Neville Chamberlain always admitted that he did not know a great deal about monetary and financial matters and was therefore content to follow the line that Treasury officials set out for him.¹⁴⁸ For its part, Treasury was powerful in its bureaucratic influence, conservative in its outlook and hierarchical in its organization. It was thus not only not open to new ideas itself, but able to prevent their penetration elsewhere in the policy-making apparatus.¹⁴⁹

To be fair to the bureaucracy of the time, the economics profession did not present a unified vision when it came to monetary issues. Like everyone, with the Great Depression they were confronted with a situation the like of which they had not encountered before. With rare exceptions, they were groping for answers themselves. One of the few economists of the period who took a consistent line that the problem lay in the gold standard and that the solution lay in abandoning the gold standard was the Swedish economist Gustav Cassel.¹⁵⁰ For the most part, the profession presented a confused and confusing picture. One Treasury official, for example, opposed discussion of monetary issues at Ottawa because: “All the economic and currency experts will want to propose every kind of scheme. If the matter is referred to them we shall have nearly as many recommendations as there are experts with a very unsettling effect on sterling and on confidence.”¹⁵¹ Bennett, who did not often agree with J.H. Thomas, was to say,

¹⁴⁸ Amery 81 and 83. Drummond, *Imperial Economic Policy*, 30.

¹⁴⁹ Margaret Weir, “Ideas and Politics: The Acceptance of Keynesianism in Britain and the United States,” in Peter Hall (ed.), *The Political Power of Economic Ideas: Keynesianism Across Nations* (Princeton: Princeton University Press, 1989), 54-86. Also see Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca and London: Cornell University Press, 1986), 17-21.

¹⁵⁰ Douglas A. Irwin, “Anticipating the Great Depression: Gustav Cassel’s Analysis of the Interwar Gold Standard,” NBER Working Paper 17597, November, 2011.

¹⁵¹ Drummond, *Imperial Economic Policy*, 216.

on the subject of economists, that he “was inclined to agree with ‘Jimmy’ Thomas that ‘the opinions of the first half dozen of ’em cancel out the opinions of the second half dozen of ’em.’”¹⁵² While Keynes may have hoped the Conference would arrive at an agreement for a more ambitious monetary outcome, other well known economists of the day were relieved that it did not. T.E. Gregory, for example, at a conference in the United States a few days after the Conference said, “If it had no other success, the Ottawa conference defeated the expectations of ‘all the monetary cranks of the British Empire,’ who used the meeting as their ‘happy hunting ground.’”¹⁵³

To add to the confusion, individual economists often changed their views as circumstances changed and new information emerged. Donald Markwell traces the evolving positions adopted by Keynes in the interwar period.¹⁵⁴ He famously opposed Britain’s return to the gold standard at the pre-war parity in 1925.¹⁵⁵ In October 1930, he opposed devaluation of the pound, “because of its reactions on our international credit,” a concern similar to Bennett’s fear of the effects of a Canadian devaluation.¹⁵⁶ When Britain did depart from the gold standard in September 1931, Keynes welcomed it as “freeing ourselves from our golden fetters.”¹⁵⁷ In March 1931, Keynes, after long championing free trade, proposed Britain adopt a revenue tariff.¹⁵⁸ After the Ottawa Conference, Keynes complained that it had “riveted tariffs more

¹⁵² Chargé (Boal) to Under Secretary of State (Phillips), Ottawa, 14 April 1933. Foreign Relations of the United States, 1933, Volume II, 46.

¹⁵³ Louis Stark, “Urge New Parley to Pacify Japan,” *New York Times*, 26 August 1932, E3.

¹⁵⁴ Donald Markwell, *John Maynard Keynes and International Relations: Economic Paths to War and Peace* (Oxford: Oxford University Press, 2006).

¹⁵⁵ *Ibid.*, 144.

¹⁵⁶ *Ibid.*, 145.

¹⁵⁷ *Ibid.*, 149.

¹⁵⁸ *Ibid.*, 155.

firmly on all concerned.”¹⁵⁹ One can perhaps sympathize with Walter Runciman’s complaint, recorded in Mackenzie King’s diary, “Of six economists there would be seven opinions, -- Keynes giving two.”¹⁶⁰

Nor would politicians in Canada have been any better served. Irving Brecher, in his study of the development of economic thought in Canada in the interwar period, claims that the Canadian economics profession made no contribution to understanding the Great Depression or the business cycle in general.¹⁶¹ This would, however, begin to change. Monetary policy began to be a subject that attracted serious academic attention in Canada. The question of the establishment of a central bank became perhaps the dominant issue in macroeconomics in Canada in the period.¹⁶² A major contribution that William Clifford Clark made to Canadian economic policy is the momentum he gave to the push for the creation of a central bank in Canada. There are unconfirmed stories that he made creation of a central bank a condition of his accepting the position of Deputy Minister.¹⁶³

(c) An Imperial Secretariat

In Britain, representatives of both employers and trade unions had begun urging greater integration of the British Empire, and as part of this effort had been arguing for the establishment of a permanent secretariat along with regular economic conferences involving experts and

¹⁵⁹ Ibid., 159. To be fair, however, Keynes thought the case for a tariff had weakened after Britain left the gold standard.

¹⁶⁰ King Diary, 28 July 1932.

¹⁶¹ Irving Brecher, *Monetary and Fiscal Thought and Policy in Canada, 1919-1939* (Toronto: University of Toronto Press, 1957), 97.

¹⁶² Ibid., 4-5.

¹⁶³ Bryce, 82 and George S. Watts, *The Bank of Canada: Origins and Early History* (Ottawa: Carleton University Press, 1993), 12.

officials from Britain and the Dominions.¹⁶⁴ There were already several imperial economic bodies, including the Empire Marketing Board and the Imperial Shipping Committee.¹⁶⁵ An effort to rationalize and coordinate these bodies was also thought to be worthwhile. In his 16 June speech, Stanley Baldwin argued some subjects were so highly technical that they would require ongoing consultations, “and so it is essential, I think, before we leave Ottawa that we should have strengthened and improved whatever methods now exist for continuous exploration.” The British therefore approached the Ottawa Conference with the hope that there would be a discussion of “methods of co-ordination and promoting co-operation between Imperial conferences and development of suitable machinery.”¹⁶⁶ This was one of the subjects considered by the Committee on Methods of Economic Co-operation. In fact the British held out little hope that much could be accomplished in this area, given the opposition of some of the Dominions. O.D. Skelton had opposed such a plan, fearing it would lead to economic centralization.¹⁶⁷ The Dominions too, British authorities believed, would be reluctant to finance a new international body, especially one that would likely be based in London.¹⁶⁸ Leading up to and over the course of the Conference various other possible imperial institutions were broached from time to time, including an Empire central bank or clearing bank.¹⁶⁹ By and large, however, these proposals were not seriously entertained.

The Committee’s final report recommended the appointment of a committee:

to consider the means of facilitating economic consultation and co-operation between the several Governments of the Commonwealth, including a survey of the functions,

¹⁶⁴ Hodson, “Before Ottawa,” 598.

¹⁶⁵ Drummond, *Imperial Economic Policy*, 227.

¹⁶⁶ Drummond, *Imperial Economic Policy*, 226.

¹⁶⁷ *Ibid.*, 227.

¹⁶⁸ Hodson, *Before Ottawa*, 598.

¹⁶⁹ See, for example, Charles A. Selden, “Bank for the Empire and Silver Coinage Pressed At Ottawa,” *New York Times*, 25 July 1932, 1.

organizations and financial bases of the agencies in the annexed report, and an examination of what alterations or modifications, if any, in the existing machinery of such co-operation within the Commonwealth are desirable.¹⁷⁰

The committee was established as the Imperial Committee on Economic Consultation and Co-operation within the Commonwealth. In February 1933, O.D. Skelton was named as Chairman. Skelton suspected this might be a British ploy to muzzle him and accepted the appointment only on the condition that he would be able to speak and act as the lead representative for Canada.¹⁷¹ Skelton's own choice for Chairman would have been Sir Horace Wilson, who had earned Bennett's everlasting enmity in Ottawa. Skelton believed he would more easily gain Bennett's support for opposing any measures proposed by Wilson.¹⁷² The Committee did produce a report in the spring of 1933 that urged the rationalization of some bodies, and the elimination of the Empire Marketing Board. As Drummond writes, however, the Ottawa Conference put an end to any notion of an Imperial economic general staff.

Conclusion

The signing of the bilateral treaties took place on the morning of 20 August, after which the Conference adjourned. The trade treaties gave the delegates the cover they needed to declare the Conference a success. The dominant mood, however, was less one of exhilaration than of exhaustion. Neville Chamberlain's biographer said of the British delegation that it was a "weary, disenchanted body who reached home."¹⁷³ Instead of *bonhomie* there was bitterness. Neville

¹⁷⁰ "Resolutions and Statements Regarding Methods of Economic Co-operation," in Ollivier, 364. South Africa and Ireland made reservations to the Committee report, saying that they would not be associated with any permanent secretariat.

¹⁷¹ See Norman Hillmer (ed.), *O.D. Skelton: The Work of the World, 1923-1941* (Montreal and Kingston: McGill-Queen's University Press Toronto: The Champlain Society, 2013), 250-251, 254-256 and 258-259.

¹⁷² *Ibid.*, 251.

¹⁷³ Feiling, 215.

Chamberlain told his sister he hoped never to see Canada again. Such was his antagonism towards Bennett that he refused to grant him the knighthood he so desired.

The correspondent of the *London News Chronicle* wrote on the last day of the Conference, “One Dominion statesman said to me today with an air of melancholy, ‘I have come to the conclusion that the only way to prevent the break-up of the empire is to avoid conferences as you would the devil.’” In the *New York Times*, former British Member of Parliament P.W. Wilson noted the paradox that invariably emerged at Imperial Conferences: “[t]he dominions meet – that is true. But at the meeting they draw apart. Every conference yet held has registered steps along the path of decentralization. Every conference has left the dominions more assured of their autonomy.”¹⁷⁴

The irony is that the Ottawa Conference began with high hopes for success in trade and monetary issues in particular. R.B. Bennett had proposed the conference and had promoted a plan to use tariffs both to foster the development of the individual Dominions and to forge a new, more integrated economic Empire. In London in 1930 his plan met with the implacable opposition of the Labour Government which refused to tax food. Two years later, however, a new Conservative-dominated British Government appeared more receptive to Bennett’s plan. It had introduced tariffs and, pending the outcome of the Ottawa Conference, had exempted the Dominions from those duties. One of the British delegates to Ottawa was the Chancellor of the Exchequer, Neville Chamberlain, son of the imperial visionary Joseph Chamberlain. Britain had also abandoned the gold standard before the Ottawa Conference and had been followed by approximately two dozen other countries. Some economists hoped Britain would seize the

¹⁷⁴ P.N. Wilson, The British Empire Settles One Main Issue at Ottawa,” *New York Times*, 21 August 1932, XX3.

opportunity to form a new currency bloc that would provide an example of stability to the rest of the world and lead to the creation of a new, more stable monetary regime.

The Conference did succeed in creating a network of bilateral trade agreements. It did not, however, lead to a turning point either in the Depression or in imperial relations. There was much that was wrong with the organization of the Conference. It was poorly planned. R.B. Bennett was almost certainly not the best man to lead the proceedings. The negotiations involved highly complex and highly technical issues and were conducted in a high-pressure atmosphere by people largely inexperienced in trade negotiations. Difficulties were further enhanced by the presence of hundreds of industry representatives and journalists all with their own interests. It is little wonder then that it failed.

The organization and atmospherics may have been unfortunate, but what doomed the Conference was divergent national interests. Realist and neo-realist theorists of international relations argue that international cooperation is difficult to achieve at the best of times. The imperative faced by statesmen is to put their country's interests first. The competition for relative economic gains is, these theorists believe, almost as intense as the competition for gains in security. The economic competition becomes even more intense in times of economic difficulty. This behaviour was clearly on display at the Ottawa Conference. Britain, as much as any Dominion, approached the Conference with the idea that it had its own national interests to protect. For all participants, addressing their unemployment problem was paramount. For Britain this meant gaining better access to Dominion markets for its manufactured products. At the same time, it wanted to keep food costs down for its working class. In September 1931, Britain embarked on a new monetary course. It was willing to see Dominions tie their currencies

to the pound, if they so chose; it was not willing to allow the Dominions to tie its hands as to future directions of British monetary policy.

The Dominions, Canada especially, saw its path to prosperity through the development of its own industrial base. Canada's manufacturing industries, in Bennett's view, needed protection from British competition as much as anyone else. Bennett wanted access to the British market for its food and other commodity exports, but he really wanted higher prices. The trade agreements reached at Ottawa were not sufficient to produce a return to growth. Bennett's defenders argue that the Ottawa Conference served to put relations with Britain on a more realistic footing. Rod Finlayson, for example, wrote of it:

Many of Canada's younger generation at the time believed that the deeper significance of the Ottawa Conference lay in the fact that it brushed away all of the old cobwebs of colonial economic subordination, and that it proved for all the Dominions to be an economic corollary to political decentralization.¹⁷⁵

Going forward, Canada would have to seek other paths to economic growth. As Bennett realized, this would involve the United States.

¹⁷⁵ Rod K. Finlayson, *Life with R.B.: That Man Bennett*, unpublished memoir, Library and Archives Canada, Reel H1310.

Chapter 5

After Ottawa – The Turn to America

Introduction

Much of the celebratory rhetoric that accompanied the closing of the Ottawa Conference stressed that its accomplishments represented only a beginning or a foundation upon which further action should be taken. In his closing remarks to the Conference, Prime Minister Bennett said,

We are therefore encouraged to proceed along the course we have chosen, but this propitious beginning must not blind us to the fact that it is but a beginning – we have only laid the foundation – and that if this scheme of closer Empire association is to endure and to bring each one of us the benefits we hope for, further action must be taken at a not too distant date.¹

In an editorial on the closing day of the Conference, the *Ottawa Journal* acknowledged the difficulties and tensions of the past month, but concluded, “the central fact will be that the ideal of Empire has become reality, that the steps taken, whatever they may be, are in the right direction; that a beginning has been made on a journey from which there will be no turning back.”² Leo Amery records a letter he received from the South African statesman Jan Smuts, “I am pleased with Ottawa, but it is only a small first step. Will it be followed up?”³

The answer to Smuts’s question is no, it would not. As Alex Inglis has written, the Ottawa Conference represented the “the last attempt to create an imperial system which would

¹ “Record of Proceedings at the Closing Session of the Conference, held in the House of Commons Chamber, Parliament Buildings, Ottawa, on Saturday, the 20th August, at 10:30 a.m.” in Maurice Ollivier (ed.) *Colonial and Imperial Conferences From 1887 to 1937, Volume III: Imperial Conferences, (Part II)* (Ottawa, Queen’s Printer and Controller of Stationery, 1954), 416.

² “The Conference Succeeds,” *Ottawa Journal*, 20 August 1932, 8.

³ Quoted in Leo S. Amery, *My Political Life, Volume III: The Unforgiving Years, 1929-1940* (London: Hutchinson, 1955), 88.

meet the wider needs of the member countries.”⁴ It was soon obvious to all of the Ottawa participants that the Empire was not and never would be a self-contained economic unit. Nor would increased trade within the Empire have a measurable impact on the Depression. Before the ink was barely dry on the Ottawa agreements, the signatories were in search of other trading partners. In the year after the Ottawa Conference, Britain concluded trade agreements with four non-Empire countries. In Canada, the year 1933 marked a turning point in its economic diplomacy. In the United States, a new administration signalled that it was prepared to reduce tariff barriers and seek closer trade relations. In R.B. Bennett it found a willing partner. By 1933, Bennett was rethinking many of his assumptions about the proper response to the Depression. Part of this rethinking was a drawing closer in economic relations with the United States, so that by the spring of 1933 Bennett was anxious that Canada be seen as a useful ally in the run-up to the World Economic Conference that was held in the summer of 1933.

This Chapter proceeds in four parts. The next section looks at Britain’s assessment of the Ottawa Conference outcomes. While initially the British Government expressed satisfaction, almost immediately it began to take measures to increase its non-Empire trade. In Britain too there was a feeling that Canada had benefitted disproportionately from the Ottawa Agreements. Section II then looks at the initial American reaction, which was generally sanguine. The trade measures did not seem too serious and American industries operating in Canada scored a victory in turning back more onerous Empire content rules. Section III examines Bennett’s changing views in the aftermath of the Ottawa Conference. The Depression was deeper and more intractable than he had believed. He began to consider additional policy responses, one of which was a commercial *rapprochement* with the United States. Such an initiative might have been

⁴ Alex A. Inglis, “Introduction,” *Documents on Canadian External Relations Volume 5, 1931-1935*, xi.

stillborn, however, had it not met with a new American administration more open to improving trade relations. Bennett's initial dealings with the Roosevelt administration are discussed in Section IV.

I. Initial Impacts of the Ottawa Conference

The fear of many countries observing the 1932 Imperial Economic Conference was that the Ottawa Agreements would make the Empire a more closed trading bloc and that they would divert trade from countries that had up to then supplied Britain with some commodities. The messaging that came out of the Conference was mixed. Many had drawn comfort from a passage in Stanley Baldwin's opening statement:

For however great our resources we cannot isolate ourselves from the world. No nation or group of nations however wealthy and populous can maintain prosperity in a world where depression and impoverishment reign. Let us therefore aim at the lowering rather than the raising of barriers,... and let us remember that any action we take here is bound to have repercussions elsewhere.⁵

Yet in his closing remarks, R.B. Bennett said,

The agreements signed to-day proclaim not only a growing spirit of co-operation within the Empire, but as well, the nature and extent of our material resources. We have so marshalled these resources that in many commodities we will hereafter be self-sufficient. We have taken steps to develop, to the common advantage of the Empire countries, other commodities which heretofore were gathered from world sources. We indeed convinced ourselves that with sound management and just division of responsibilities, we are each equipped to advance the interests of one another, and collectively to take a commanding place in the economic world.⁶

The Ottawa results were not well-received by the whole of the National Government in Britain. Just days after the Conference adjourned, Philip Snowden, who was Lord Privy Seal in

⁵ Ollivier, 402. For an example of a welcoming reaction to Baldwin's remarks, see the editorial, "Realities at Ottawa," *New York Times*, 23 July 1932, 10.

⁶ Ollivier, 416.

the cabinet of the National Government, wrote in a letter to the Home Secretary, the Liberal Sir Herbert Samuel:

I fully realize the difficulties of our delegation, but they have been outmanoeuvred at every point. They began well, and I had hopes they would maintain the position they took up at the beginning by not agreeing to anything which would hamper our tariff negotiations with foreign countries. But they seem to have been terrified by the fear of a break-up of the Conference. Bennett's hectoring and bullying seem to have been too much for them. So far as I can understand the Report, we have given up entirely our fiscal autonomy, and surrendered our power to use the new tariffs as a bargaining weapon to get foreign tariffs down, which was the main defence of the tariffs used by Runciman and Baldwin and indeed by all of them. ...I do not see that the Dominions are making any concessions of the least value. They are to have a free market here, with protection all round against the foreigner, and their own industries are to remain highly protected against British manufactures.⁷

On 29 September, Snowden, Samuel, and Sir Archibald Sinclair, the Secretary of State for Scotland, resigned from the Cabinet in protest against the Ottawa Agreements.⁸

Immediately after the Conference adjourned, the *Globe* quoted unnamed trade experts predicting that British exports to Canada would rise by \$25 million in 1933 and perhaps twice that if economic conditions returned to normal.⁹ This would have implied an increase of almost 25 to 50 per cent. In fact, British exports to Canada fell almost 20 per cent in 1933. Such estimates of the effects of the Ottawa Agreements should not be taken too seriously given the questionable data and the fact that the Depression was still deepening.¹⁰ Nevertheless, the British press and public very soon began to view the Ottawa Agreements as of greater benefit to the Dominions than to themselves. The Empire share of British imports expanded from 28.7 per cent in 1931 to 37.1 per cent in 1934. Meanwhile, the share of the Empire in British exports

⁷ Philip Viscount Snowden, *An Autobiography: Volume II, 1919-1934* (London: Ivor Nicholson and Watson Ltd., 1934), 1020-1021.

⁸ *Ibid.*, 1028-1029. Charles A. Selden, "Free Traders Quit The British Cabinet; Snowden Is Bitter," *New York Times*, 29 September 1932, 1.

⁹ William Marchington, "Foundations of Prosperity Laid," *Globe*, 22 August 1932, 1.

¹⁰ Ian M. Drummond, *Imperial Economic Policy, 1917-1939: Studies in Expansion and Protection* (London: George Allen and Unwin Ltd., 1974), 285.

increased only from 43.7 per cent in 1931 to 46.9 per cent in 1934.¹¹ Canada was often viewed as the country that benefited most from the Ottawa Agreements, while having made no substantial concessions in return.¹² In 1934, the Canadian Government was criticized first for the dilatoriness in setting up the Canadian Tariff Board and then for the Board's inability to apply the principle of domestic competitiveness. Meanwhile, the increase in trade following the Ottawa Conference appeared to be solidly to Canada's advantage. From 1932 to 1936, Canada's exports to Britain increased by 84.8 per cent, and for a time Britain once again became Canada's largest export market. British exports to Canada, on the other hand, increased by only 10.8 per cent over that period.¹³ To be sure, it is unclear how much of this relative gain for Canadian exports was due to the Ottawa agreements as opposed to stronger growth in Britain and continued slow growth in the United States. The reaction to the post-Ottawa trade developments, however, illustrates the importance of perceptions of relative gains in international trade.¹⁴ Britain found the agreements increasingly embarrassing and tried to modify them between 1934 and 1937 and would certainly have taken a tougher stand in 1937.¹⁵ The Minister of Agriculture is quoted as saying of the Dominions, "fewer aces will be dealt to them in 1937."¹⁶

Britain wasted no time in seeking arrangements with other trading partners, and it had no lack of potential suitors. The issue coming out of Ottawa was whether and to what extent the Empire Agreements limited Britain's ability to negotiate trade agreements with non-Empire

¹¹ Figures taken from Robert B. Stewart, "Instruments of British Policy in the Sterling Area," *Political Science Quarterly* Vol. 52, No. 2 (June, 1937), Table III, 201.

¹² Stewart, 201.

¹³ Canada Annual Yearbook, 1937, Table III, 508. In 1934 Canadian exports to Britain exceeded exports to the United States.

¹⁴ Robert Gilpin, *Global Political Economy: Understanding the International Political Order* (Princeton and Oxford: Princeton University Press, 2001), especially Chapter 8 and John Mearsheimer, "The False Promise of International Institutions," *International Security*, Vol. 19 No. 3 (Winter, 1994-1995), 19-21.

¹⁵ Drummond, *Imperial Economic Policy*, 32.

¹⁶ Stewart, 203.

countries. As seen above, Philip Snowden believed the Ottawa Agreements had tied British hands when it came to negotiating with other countries. In October 1932, in what was seen as a victory for Bennett, Britain notified the Soviet Union that it was abrogating a trade treaty the two countries had negotiated in 1930 because that treaty was now in violation of the Ottawa Agreements.¹⁷

Alfred Zimmern, on the other hand, argued that the Ottawa Conference scarcely limited Britain's ability to negotiate trade agreements with countries outside the Empire:

so far from creating a closed system between Great Britain and the Dominions, the Ottawa Agreements have left Great Britain far freer than was generally expected before the event, or was generally realized after the event, to negotiate treaties for tariffs with other countries.¹⁸

Indeed, according to Harvard international law specialist Robert Stewart, the Ottawa agreements gave Britain leverage to negotiate other pacts:

From the very day that the Import Duties Act was passed, and particularly after the Ottawa pacts were signed, the British Foreign Office was said to be 'constantly invaded' by representatives of countries -- particularly Norway, Sweden, Denmark and Argentina -- who wished to enter into negotiations.¹⁹

The smaller countries of northern Europe were, Ger van Roon argues, hurt by the Ottawa agreements, but chose different paths in response. The Scandinavian countries sought trade agreements with Britain, while the Netherlands and Belgium, which did not follow Britain off the gold standard in 1931, chose rapprochement with Germany.²⁰

The Ottawa Agreements, notwithstanding, Britain's trade diplomacy became very active in the months following the Ottawa Conference. When, for example, the British Government

¹⁷ Charles A. Selden, "Britain Ends Treaty With Soviet Russia," *New York Times*, 19 October 1932, 1

¹⁸ Alfred Zimmern, "The Open Door and Reciprocity," *Queen's Quarterly*, Vol. 40 No. 4 (Winter, 1933), 502.

¹⁹ Stewart, 181.

²⁰ Ger van Roon, *Small States in Years of Depression: The Oslo Alliance, 1930-1940* (Assen/Maastricht: Van Gorcum, 1989), especially Ch. III "Britain Opts for the Commonwealth."

announced the abrogation of its trade agreement with the Soviet Union, it in the next breath J.H. Thomas said the government was: “anxious for the furtherance of trade with Soviet Russia and prepared to enter into a discussion of this end at the earliest moment.”²¹ Also, that same day, the government revealed that it had invited the governments of Denmark, Sweden and Norway to send delegates to London to begin discussions of new tariff arrangements.²² And by the spring of 1933, Britain had concluded new trade agreements with Denmark, Sweden, Norway and Argentina. The pact with Argentina was important, says John Darwin, in that it enabled the country to earn the British pounds necessary to service their sterling debts. Enabling the country to service its sterling debt was also a factor in Britain’s negotiation of some of the Dominion agreements.²³ The non-Empire treaties honoured the letter of the Ottawa agreements by limiting the extent to which imperial preference could be extended and in some cases by guaranteeing the partner country a share of the British market. According to imperial visionaries, such as Leo Amery, however, they were inconsistent with the spirit of the Ottawa Agreements.²⁴

Just before the Imperial Economic Conference was convened in Ottawa, the Lausanne Conference had called for an International Monetary and Economic Conference. At the time of the Ottawa Conference, it was believed that the world conference would take place before the end of the year -- in fact, it took place in June-July 1933. The prospect of a World Economic Conference led to the Ottawa Conference being judged by the extent to which it was seen to contribute to or detract from the chances of success of the larger meeting. Again, the judgments were mixed. When Ramsay MacDonald tried to talk Philip Snowden out of resigning from the

²¹ Quoted in Charles A. Selden, “Britain Ends Treaty With Soviet Russia,” *New York Times*, 19 October 1932, 1

²² Ibid.

²³ John Darwin, *The Empire Project: The Rise and Fall of the British World System, 1830-1970* (Cambridge: Cambridge University Press, 2009), 437.

²⁴ Leo S. Amery, “Imperial and Foreign Trade: Danish and Argentine Agreements,” *Times of London*, 4 May 1933, 8.

National Government by arguing that a split in the government would hurt the prospects for a successful world conference, Snowden replied:

I am not in the least influenced by the talk of the effect of the break-up of the Government will have upon the World Economic Conference. There never was any prospect of that doing much good, and any such prospect has been destroyed by the decisions of the Ottawa Conference which has closed the door to any international tariff arrangements.²⁵

At a meeting of British, American and Canadian academic economists shortly after the Ottawa Conference, the British economist T.E. Gregory, said the Ottawa Agreements had confirmed Britain's swing to the view that "at all costs we must hamper and limit the free flow of goods and services," and were thus a "great disaster," and had killed the world conference before it started.²⁶ Harvard Economics Professor John Williams, on the other hand, was more hopeful, suggesting that if the Ottawa proceedings scared the outside world into a willingness to make reciprocal tariff concessions, they might serve a constructive purpose.²⁷ Williams would subsequently be appointed one of the American delegates to the Preparatory Commission for the World Economic Conference.²⁸ A year later, when the World Economic Conference failed, the British scholar Gilbert Murray, would blame the rise of economic nationalism, for which R.B. Bennett was partly to blame:

I do not want to criticize any particular person, but I remember that in Canada one important minister, a very able high-minded man, won his election on the cry "Canada First"! I expect it was the same in other countries. Is it remotely possible that the Canadian electorate as a whole would *not* put Canada first? Of course they would. When a man comes to an electorate already disposed by every natural instinct to put their

²⁵ Snowden, 1027.

²⁶ Louis Stark, "Blame Our Tariffs For Ottawa Pacts," *New York Times*, 25 August 1932, 14.

²⁷ Ibid.

²⁸ Patricia Clavin, *The Failure of Economic Diplomacy Britain, Germany, France and the United States, 1931-1936* (Houndsmills, Basingstoke, Hampshire: Macmillan Press; New York: St. Martin's Press, 1996), 42.

interests first, and passionately urges themselves to put themselves first, the result is that they must put themselves quite wildly and unreasonably first.²⁹

By contrast, both Neville Chamberlain and R.B. Bennett feared that the World Economic Conference would pose a risk to the Ottawa Agreements.³⁰

On the monetary side, one could not say that the Ottawa Conference made any significant contribution to the World Conference. It was perhaps useful, however, in that the Ottawa statement set out the British position on monetary policy more clearly than it had been up to then. The British Government used the Ottawa statement in preparation for the World Economic Conference.³¹

II. Initial American Reaction

For Canada, the foreign reaction that mattered most was that of the United States. For the most part, Americans did not seem unduly alarmed at the outcome of the Ottawa meeting. The *New York Times* on the day after the Conference quoted figures to the effect that the Canada-United Kingdom agreement aimed to transfer between \$50 and \$100 million of Canadian purchases from the United States to Britain, but then quoted unnamed American observers as saying the actual would likely be closer to the lower figure.³² This would represent about 14 per cent of the level of American exports in 1932, but less than six per cent of American exports in 1929.³³ The Depression, rather than the Ottawa Agreements, was much the more important

²⁹ Gilbert Murray, "A Survey of Recent World Affairs," in Geneva Institute of International Relations, *Problems of Peace, Eighth Series: Lectures Delivered at the Geneva Institute of International Relations, August 1933* (Freeport, New York: Books for Libraries Press, (1934) 1968), 5.

³⁰ Sir Frederick Leith-Ross, *Money Talks: Fifty Years of International Finance, The Autobiography of Sir Frederick Leith-Ross* (London: Hutchison of London, 1968), 167-168 and Rod K. Finlayson, "Life With R.B.: That Man Bennett, unpublished memoir, Library and Archives Canada, Reel H1310, 171-172.

³¹ Drummond, *Imperial Economic Policy*, 288-289.

³² Joseph Shaplin, "Fight Ottawa Pact As Aimed Against Us," *New York Times*, 21 August 1932, 1.

³³ Calculated with data from *Canada Annual Yearbook, 1937* (Ottawa: King's Printer, 1937), Tables III and V, 508 and 512.

reason for the decline of American exports to Canada. John Williams said that while there would be an effect on the United States, the magnitude “was not worth worrying about.”³⁴ In November, the Commerce Department and United States Chamber of Commerce produced analyses suggesting that \$152 million of American exports (representing about 33 per cent of American exports) were in categories affected by the British and Canadian tariffs, but the amount of sales lost could be determined only by experience.³⁵

One American group that was relieved at the outcome of the Ottawa Conference was the representatives of American industries operating in Canada. At one point the Committee on Promotion of Trade Within the Commonwealth, one of the five committees set up at the Ottawa Conference, was considering increasing and standardizing rules on “Empire content” or the share of a final product that had to be produced within the Empire to be considered an Empire good and thus eligible for imperial preference. Representatives of American business warned that many plants operating in Canada would close as a result.³⁶ In the end, the Committee postponed a decision, calling upon governments of the Commonwealth only to “investigate, as rapidly as possible, the standard of Empire Content which should be required” and noting that “a greater degree of uniformity throughout the Commonwealth is desirable.”³⁷

In fact, the increased imperial preference that emerged from the Ottawa Conference accelerated the establishment of American branch plants in Canada.³⁸ This is perhaps another irony associated with Canada-United Kingdom relations in the early 1930s. The growing

³⁴ Louis Stark, “Blame Our Tariffs For Ottawa Pacts,” *New York Times*, 25 August 1932, 14.

³⁵ “Ottawa Pact Loss For U.S. \$82,000,000,” *New York Times*, 19 November 1932, 25. The headline appears to err. The \$82 million figure is the amount of exports to the United Kingdom in categories affected by tariff changes arising out of the Ottawa Agreements. Not all of these exports would be lost.

³⁶ Joseph Shaplen, “Canada Is Warned Our Plants May Go,” *New York Times*, 16 August 1932, 4.

³⁷ Ollivier, 360.

³⁸ Stephen Scheinberg, “Invitation to Empire: Tariffs and the American Economic Expansion in Canada,” *Business History Review*, Vol. 47 No. 2 (Summer, 1973), 218-238.

American influence in Canada had earlier been a source of concern for the British Government. In 1927, for example, Stanley Baldwin worried that too many Canadian industries were passing under American control and sought to encourage “more British capital as a counter-weight, and to help Canadians repurchase, in time, the control of Canadian industries now in American hands.”³⁹ In 1932, however, Baldwin’s own efforts furthered the opposite result. For Canada’s part, the increase in American direct investment was a welcome by-product of the Ottawa Agreements.⁴⁰

III. Bennett’s Turn to America

Rod Finlayson claims that Bennett was not one of those disappointed with the outcome of the Ottawa Agreements; he believed that given time all would be well.⁴¹ Blair Neatby refers to the time immediately after the Conference as an interregnum during which Bennett hoped that the policies put in place would begin to work.⁴² Yet, there is evidence that he was beginning to think about what could come next. The deepening recession and the failure of the Imperial Economic Conference to provide an immediate economic lift seems to have caused Bennett to do some considerable soul-searching and some serious examination of the beliefs he had held up to that point. Threats to the social order had become for him a serious concern.⁴³ He told Robert Manion that another year like 1932 would break the capitalist system.⁴⁴

³⁹ Quoted in Norman Hillmer, “A British High Commissioner for Canada, 1927-1928,” *Journal of Imperial and Commonwealth History* Vol. 1 (1972-1973), 351.

⁴⁰ Stephen Azzi, “Foreign Investment and the Paradox of Economic Nationalism,” in Norman Hillmer and Adam Chapnick (eds.), *Canada’s of the Mind: The Making and Unmaking of Canadian Nationalisms in the 20th Century* (Montreal: McGill-Queen’s University Press, 2007).

⁴¹ Finlayson, 164.

⁴² Blair Neatby, *The Politics of Chaos: Canada in the Thirties* (Ottawa: Golden Dog Press, (1972) 2003), 62.

⁴³ Larry Glassford, *Reaction and Reform: The Politics of the Conservative Party Under R.B. Bennett* (Toronto: University of Toronto Press, 1992), 123.

⁴⁴ Peter B. Waite, *In Search of R.B. Bennett*, (Montreal and Kingston: McGill-Queen’s University Press, 2012), 157

On 14 April 1933, the American *Chargé d’Affaires* in Ottawa sent to Secretary of State Cordell Hull a summary of several recent talks he had had with Bennett. The Prime Minister told Boal that the Depression had begun earlier in Canada than in the United States and was not over. While he still stood for the fulfillment of Canada’s obligations and the maintenance of its credit, if agreement was not reached that year on ways to increase wholesale prices and stabilize exchange rates then this line of action would have to be abandoned. He told Boal that he had already drafted a plan of action in the event that the World Economic Conference failed – characteristically, his colleagues in Cabinet had no knowledge of this plan. Boal gathered from what Bennett said that this plan would involve inflation and the abandonment of Canada to pay its foreign obligations. Moreover, it “would of necessity launch Canada into a number of untried social and economic experiments the outcome of which no one at present could foresee.”⁴⁵

Bennett did begin to experiment more. In November 1932, the government attempted to expand the monetary base by forcing the chartered banks to borrow \$35 million under the Finance Act. This was the first time a Canadian Government attempted a deliberately counter-cyclical monetary policy operation in peace time.⁴⁶ This did not have the expansionary effect that had been hoped for as the banks used the new advances to repay outstanding advances. With the appointment of William Clifford Clark in November 1932, the push for the creation of a central bank gained new impetus. It seems around this time that Bennett himself became definitely convinced of and committed to the creation of a central bank. In a December 1933 speech, Bennett claimed that he had been convinced of the need for a central bank since

⁴⁵ Chargé (Boal) to Secretary of State (Hull), *Foreign Relations of the United States 1933*, 14 April 1933, 45-46.

⁴⁶ See S.R. Noble, “The Monetary Experience of Canada During the Depression,” in A.D. Gayer (ed.), *The Lessons of Monetary Experience: Essays in Honour of Irving Fisher* (New York: Farrar and Rinehart Inc., 1937), 123-124; R. Craig McIvor, *Canadian Monetary Banking and Fiscal Development* (Toronto: Macmillan Co., 1961), 133; Robert Bryce, *Maturing in Hard Times: Canada’s Department of Finance Through the Great Depression* (Toronto: Institute of Public Administration of Canada; Kingston: McGill-Queen’s University Press, 1986), 131-132.

September 1931.⁴⁷ George Watts's history of the Bank, however, claims Bennett's first mention of establishing a central bank was in February 1932, and then it was only to say that it was a subject worthy of debate.⁴⁸ In March 1933, the Conservative Government announced that a royal commission would be formed to examine the currency and banking system of Canada, including whether a central bank should be established.⁴⁹ Historians of the Bank of Canada view domestic concerns as the primary factor motivating the government's interest in a central bank.⁵⁰ Bennett did, however, after the Ottawa Conference, receive encouragement from British authorities for the establishment of a central bank, including from Montague Norman, the Governor of the Bank of England. It seems that while Norman opposed giving the Dominions a say in managing British monetary policy, he did favour the creation of a network of central banks throughout the Commonwealth.⁵¹

Part of Bennett's reappraisal of policy toward the Depression was a reassessment of relations with the United States. Bennett had a reputation of being anti-American.⁵² Among J.W. Dafoe's complaints about Bennett was his "distressing" anti-Americanism.⁵³ The Liberals accused Bennett of anti-Americanism after the Ottawa Conference.⁵⁴ To be sure, there were aspects of American life that he did not like. Waite quotes him as telling a young man in his

⁴⁷ Milton L. Stokes, *The Bank of Canada: The Development and Present Position of Central Banking in Canada* (Toronto: Macmillan Co., 1939), 65.

⁴⁸ George S. Watts, *The Bank of Canada: Origins and Early History* (Ottawa: Carleton University Press, 1993), 9.

⁴⁹ Bryce, 135 and Watts, 9.

⁵⁰ In addition to the studies by Watts and Stokes, see Michael Bordo and Angela Redish, "Why Did the Bank of Canada Emerge in 1935?" *Journal of Economic History*, Vol. 47 No. 2 (June, 1987), 405-417; Linda Grayson, *The Formation of the Bank of Canada, 1913-1938*, Doctoral dissertation, University of Toronto, 1974; Robin Neil, "The Policy Significance of the Founding of the Bank of Canada," *Carleton Economic Papers* 91-12, December, 1991.

⁵¹ Watts, 8 and Grayson, 129-131.

⁵² Robert Bothwell and Norman Hillmer, "Introduction," in Robert Bothwell and Norman Hillmer (eds.) *The In-Between Time: Canadian External Policy in the 1930s* (Vancouver, Calgary, Toronto, Montreal: Copp Clark Publishing, 1975), 14.

⁵³ Ramsay Cook, *The Politics of J.W. Dafoe and the Free Press* (Toronto: University of Toronto Press, 1963), 193.

⁵⁴ Joseph Shaplen, "Fight Ottawa Pact As Aimed Against Us," *New York Times*, 21 August 1932, 1.

office shortly after the First World War, “I have lived in this town for more than twenty years, and whenever I have seen signs of degeneration or corruption in business morals, they have always been due to American influence. Canada’s future depends utterly upon maintaining its freedom from all that is worst in American life.”⁵⁵ Boyko, on the other hand, says that Bennett was not anti-American so much as pro-Canadian.⁵⁶

Whatever his personal feelings, however, Bennett appears to have been ready to do business with the United States whenever the United States was ready to reciprocate. He told Boal that some years ago he had said to Arthur Meighen, “Give me control of the tariff policy of the United States for a period of ten years and I can do more for the welfare of Canada than I could do for it as prime minister.”⁵⁷ In late January 1931, Bennett travelled to Washington for informal meetings with President Herbert Hoover. The event was described as an unofficial visit, the main purpose of which was to inspect the Canadian Legation in Washington. A State Department briefing paper prepared before the meeting informed Hoover:

The Conservative Party in Canada, while not actively anti-American, is less friendly disposed to the United States than the Liberal Party. For political reasons, therefore, Mr. Bennett frequently finds it advisable to criticize us despite the fact that he personally is friendly to this country.⁵⁸

The meeting, Waite suggests, was mainly about the proposed St. Lawrence Deep Waterway, though at the time neither Bennett nor the American side would say what was discussed.⁵⁹ A treaty to build the waterway was in fact concluded in July 1932, just before the

⁵⁵ Waite, 50.

⁵⁶ John Boyko, *Bennett: The Rebel Who Challenged and Changed a Nation* (Fredericton: Goose Lane Editions, 2012), 75.

⁵⁷ Boal, 14 April 1932, 47.

⁵⁸ Quoted in Roger Frank Swanson (ed.), *Canadian-American Summit Diplomacy, 1923-1973: Selected Speeches and Documents*, The Carleton Library No. 81 (Toronto: McClelland and Stewart Ltd., 1975), 27.

⁵⁹ Waite, 107 and “Bennett Is Guest Of U.S.A. President At Informal Dinner,” *Globe*, 31 January 1931, 1. Secretary of State Henry Stimson said the meeting was merely “a friendly chat.”

Imperial Economic Conference. In his opening statement to the Conference, Bennett hailed the planned waterway as a boon to Empire trade.⁶⁰ The treaty, however, was later rejected by the United States Senate.

Chapter 2 of this thesis argued that Bennett's quest to increase Empire trade in the early 1930s was mainly the result of American rejection of trade with Canada and that it was by no means limited to the Conservative Party. The mood in the United States at the time, and especially in Congress, was clearly isolationist and protectionist. Opportunities for doing business with the United States were thus clearly limited. Even then, Bennett avoided any suggestion that his policies were in retaliation for American trade actions. In early 1933, when a Liberal Member of Parliament proposed seeking a reciprocal trade agreement with the United States, Bennett replied, "He has made a strong plea that the legislature of another country should act differently from what it has."⁶¹ Moreover, there was an issue of trust with the United States.⁶² Canada had been hurt in the past when the United States withdrew trade concessions suddenly. Hence, in any trade deal with the United States he would also want to ensure that it did not involve measures "of such a character as will involve injury to this country if they are speedily terminated."⁶³

IV. New President and New Opportunities

The election in November 1932 of Franklin Delano Roosevelt as President signalled the beginning of a change in the orientation of American economic policy. At first it was unclear how much the American position would change. Earlier in his political career, Roosevelt had

⁶⁰ Ollivier, 395.

⁶¹ Commons Debates, 20 February 1933, 2261.

⁶² J.L. Granatstein and Norman Hillmer, *For Better or Worse: Canada and the United States to the 1990s* (Toronto: Copp Clark Pittman Ltd., 1991), 98.

⁶³ Commons Debates, 20 February 1933, 2266.

been identified with the Wilsonian, internationalist wing of the Democratic Party. He supported the League of Nations; he favoured generous treatment of allied war debts to the United States; and he spoke against the Smoot-Hawley tariff. In the campaign of 1932, however, he reversed himself on many of these issues.⁶⁴ The make-up of the new administration after the election gave little indication as to the ultimate direction of American international economic policy. For Secretary of State, Roosevelt chose Cordell Hull, a long-time advocate of free trade. On the other hand, key figures in his transition team, especially Rexford Tugwell and Raymond Moley, were known to belong to the nationalist wing of the Democratic Party. In his inaugural address on 4 March 1933, Roosevelt seemed to suggest that domestic concerns would take priority over international cooperation, saying:

Our international trade relations, though vastly important, are in point of time and necessity secondary to the establishment of a sound national economy. I favour as a practical policy the putting of first things first. I shall spare no effort to restore world trade by international economic readjustment, but the emergency at home cannot wait on that accomplishment.⁶⁵

At the same time, the new President sent signals that he would be more open to international cooperation. In a January 1933 magazine interview he said, “By reciprocal agreements with other nations we shall have the opportunity to lower our tariff fence to permit the resumption of international trade. The United States can lead in outlining the mutual restoration of trade, and thus facilitate exchange.”⁶⁶ Before his inauguration, Roosevelt sent his friend and confidant Henry Morgenthau to meet with Bennett to sound him out on the possibility

⁶⁴ Robert Dallek, *Franklin Roosevelt and American Foreign Policy, 1932-1945* (New York, Oxford: Oxford University Press, 1995), 1-20.

⁶⁵ Franklin D. Roosevelt, First Inaugural Address, 4 March 1932. www.bartleby.com

⁶⁶ Quoted by William Duff, Commons Debates, 20 February 1933, 2259.

of a trade agreement.⁶⁷ After that meeting, on 20 February, Bennett announced in the House that he would be open to a trade agreement with the United States.⁶⁸

In early April, Roosevelt invited eleven governments to send representatives to Washington for a series of conversations on how to make the planned World Economic Conference succeed. On 8 April, Prime Minister Bennett was invited.⁶⁹ The timing of the proposed meeting was significant. Bennett's visit was to overlap with those of Prime Minister Ramsay MacDonald and former French Premier Edouard Herriot, so that Canada was seen as part of a "Big Four."⁷⁰ Bennett stayed as a guest at the White House for two nights immediately after Ramsay MacDonald's stay. Bennett's brother-in-law, W.D. Herridge, who had been Canadian Minister in Washington since the summer of 1931, served Bennett well at this point. Herridge had become friends with Henry Stimson, Hoover's Secretary of State. Following the 1932 election, Herridge quickly made the acquaintance of key figures in the Roosevelt administration. Through Stimson, Herridge met Raymond Moley, who was a major figure in the Roosevelt transition team. It was through Herridge's connection with Moley that Bennett's Washington visit was arranged.⁷¹ Finlayson quotes the historian J.B. Brebner, that "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 wholesale in return for his neutral

⁶⁷ Finlayson, 166.

⁶⁸ Commons Debates, 20 February 1933, 2266.

⁶⁹ See Minister in United States to Secretary of State for External Affairs, 8 April 1933, DCER, 248.

⁷⁰ Finlayson, 168-169. As an example of the press coverage, see "President Plans One Joint Meeting; ... Canadian Prime Minister as Well as British and French Envoys Are to Be His Guests," *New York Times*, 20 April 1933, 3.

⁷¹ Finlayson, 168.

but understanding North American comment.”⁷² Later, he was to become good friends with Henry Morgenthau who would eventually become Roosevelt’s Secretary of the Treasury.⁷³

Although there is no evidence that Bennett thought of the Ottawa Agreements as a bargaining tool, they may have served that purpose. The *New York Times* suggests that Canada was added to the list of countries invited for the Washington Conversations as a result of his being seen as “the driving force of the Ottawa conference.”⁷⁴ Finlayson says that “It was the transfer of British purchases from the United States to Canada implicit in the Ottawa agreement of 1932 that excited the interest in the government of the United States.”⁷⁵

The triangular dimension of British, American and Canadian relations is evident in dealings in this period. At the Ottawa Conference, Stanley Baldwin believed that the Americans, contrary to the hands-off posture the American administration proclaimed, was in fact active in trying to prevent a successful outcome. He told Thomas Jones on his return from Ottawa:

The American influence is of course very strong in Canada and we believe it was doing its utmost to thwart us. If we had failed the failure would have thrown Canada far further within the ambit of the States. But we did not fail and we have another big chance if we seize it.⁷⁶

Neville Chamberlain suspected that the Roosevelt administration wanted to make a breach in the Ottawa Agreements.⁷⁷

He was not wrong. Contrary to the early American assessments of the Ottawa Agreements noted above, Cordell Hull believed they were very injurious to the United States.

⁷² Ibid., 167.

⁷³ Ibid., 166.

⁷⁴ “Parley Hopes Based On Arms Formula,” *New York Times*, 25 April 1933, 3.

⁷⁵ Finlayson, 188.

⁷⁶ Thomas Jones, *A Diary with Letters, 1931-1950* (London, New York, Toronto: Oxford University Press, 1954), 50.

⁷⁷ Brian J.C. McKercher, *Transition of Power: Britain’s Loss of Global Pre-eminence to the United States, 1930-1945* (Cambridge: Cambridge University Press, 1999), 258.

Hull blamed the Smoot-Hawley tariff policy of the Republican administration for the Ottawa Agreements. Speaking a week after the Ottawa Conference, he declared:

When the United Kingdom and her dominions at Ottawa last week concluded agreements *slashing United States trade to the tune of one hundred to three hundred million dollars* they were only defending themselves against the wild orgies of ever increasing trade barriers which were started and led by the United States.⁷⁸ [My emphasis]

Ian Drummond and Norman Hillmer claim that Americans tended to exaggerate the importance of the Ottawa Agreements.⁷⁹ This certainly appears true of Hull. The Ottawa Agreements, he later said, were the “greatest injury, in a commercial way, that has been inflicted on this country since I have been in public office.”⁸⁰ He thus made it a key objective to defeat imperial preference. In his memoirs, he said, “We were obligated to commence with some of the Dominions like Canada, and by a trade agreement with her, to begin chipping off the structure of imperial preference.”⁸¹ Various opportunities to use an agreement with Canada as means to breach the Ottawa Agreements are mentioned periodically in State Department communications in this period.

For his part, Bennett took every occasion to assure the United States that the Ottawa Agreements posed no obstacle to a deal with the United States.⁸² Pierre Boal, the American *Chargé d’Affaires* in Ottawa, however, found that while Bennett was willing to negotiate on

⁷⁸ “Ottawa Pacts Laid To Our Nationalism,” *New York Times*, 29 August 1932, 30.

⁷⁹ Ian Drummond and Norman Hillmer, *Negotiating Freer Trade: The United Kingdom, The United States, Canada and the Trade Agreements of 1938* (Waterloo: Wilfrid Laurier University Press, 1989), 15.

⁸⁰ Quoted in Steven E. Lobell, “Second Image Reversed Politics: Britain’s Choice of Freer Trade or Imperial Preferences, 1903-1906, 1917-1923, 1930-1932,” *International Studies Quarterly*, Vol. 43 No. 4 (December, 1999) 682, footnote 37.

⁸¹ Quoted in Max Beloff, “Britain and Canada Between the Wars: A British View,” in Peter Lyon, 56.

⁸² See, for example, “Bennett Stresses Trade Mutuality; Accord With Us, Reciprocal in Fact, Possible Within Ottawa Pacts, He Says,” *New York Times*, 26 April 1933, 1.

tariff rates, he seemed more committed to defending the controversial customs valuation practices that so annoyed American business.⁸³

By the spring of 1933, Boal was detecting increased interest in a trade agreement with the United States not only with Bennett, but also with the wider public in Canada. In a 29 March 1933 report to Secretary of State Hull, he said:

Opinion throughout Canada is crystallizing to press upon the Government for an agreement with the United States. It is politically timely and expedient for the Canadian Government to make such an offer to still the criticism of the Liberal party that Canada's future welfare has been sacrificed in the Ottawa agreements. I am inclined to believe that although it will be difficult to do so, it should be possible to obtain some changes in the Ottawa agreements in the interest of a substantial trade agreement with the United States.⁸⁴

In another report, on 14 April, Boal reported on Bennett's rationale for Canadian protection.

Once again Bennett stressed that it was not aimed at the United States in particular, nor was it in retaliation for American policies.

He recently said to me, speaking of the House of Commons, "If only they knew it, there are few men in that House more reluctant to bring in high tariffs than myself, but I have had to do so as a matter of necessity – the necessity of preserving Canada." He then went on to explain the necessity under which Canada has been to defend itself by the instrument of tariffs from foreign competition, not only from the United States but more particularly from the European countries, *especially the United Kingdom*.⁸⁵ [My emphasis]

There was a serious issue, however, with the United States, and that was trust. In his conversations with Boal, Bennett stressed "the disastrous effect which sudden changes in the American tariff have in the past had upon the commercial fortunes of Canada."⁸⁶ Any trade

⁸³ *Chargé* (Boal) to Secretary of State (Hull), 14 April 1933, *Foreign Relations of the United States 1933* Vol. II, 49.

⁸⁴ *Chargé* (Boal) to Secretary of State (Hull), 29 March 1933, *Foreign Relations of the United States 1933* Vol. II, 43.

⁸⁵ *Ibid.*, 45.

⁸⁶ *Chargé* (Boal) to Secretary of State (Hull), 14 April 1933, *Foreign Relations of the United States 1933* Vol. II, 44.

agreement would therefore have to contain guarantees that the benefits of the agreement would not be removed suddenly.

Boal's 14 April report was written after Roosevelt's invitation to visit Washington for talks had been extended and accepted. The reason for the talks was to discuss ways of making the coming World Economic Conference a success. Boal's report is interesting in that it reveals the extent to which Bennett was willing to help the United States in that Conference, even to the extent of pressuring Britain.

At the same time, although he has not said so explicitly, it is clear from his manner that he feels he can, by his presence be of considerable assistance to the progress of British-American relations. He implies that while the British have complained a good deal about the firmness of his methods; that while they had not been accustomed to receiving from Colonial Ministers the kind of language which he has used with them, they respect him. ... The implication is that he has the combination for moving them along in the future and expects to use it when necessary during the coming negotiations.

As you know, it is in his character to force the issue with the British when he deems it necessary, and it seems to be quite certain that if there is one thing above all others that the United Kingdom cannot afford during the coming year it is an open rift with Canada.⁸⁷

As a result, Boal believed, the United States could, as he put it, "hide behind Canada" on some issues and if there could be even a limited trade agreement before the World Conference, the United States would have strong ally. In fact, the Roosevelt administration was willing to dangle the prospect of a trade agreement before Canadians. The joint statement at the conclusion of the Washington meetings said, "We have agreed to begin a search for means to increase the exchange of commodities between our two countries and thereby promote not only economic betterment on the North American Continent, but also the general improvement of world

⁸⁷ Ibid. 48-49.

conditions.”⁸⁸ The State Department even gave reason to believe Roosevelt would ask in May 1933 for authority to negotiate a trade pact with Canada.⁸⁹

The April meetings in Washington underscored another American issue on which the British and Canadian Governments differed. In his 14 April report, Boal noted that Bennett believed the United States should devalue the American dollar against gold from \$20.67 to about \$30.⁹⁰ In fact the Roosevelt administration did abandon the gold standard on 19 April, coincidentally when Prime Minister Ramsay MacDonald and his delegation were on board a ship on their way to the Washington meeting. O.D. Skelton, who happened to be on the same ship, reported that the British delegation’s interest in the talks “dropped to zero.”⁹¹ The British Treasury adviser Sir Frederick Leith-Ross, who was part of the delegation, confirms Skelton’s report. He viewed Roosevelt’s action as a competitive devaluation against the pound and made nonsense of the coming World Conference. He recommended the British delegation return home at once.⁹² Bennett, of course, was able to be agreeable on the subject of a weaker American currency. In the first place, it would ease the burden of servicing Canada’s American dollar debt, and in the second, Canada, as a gold producer, would benefit from a weaker American dollar.

The World Economic Conference did founder, in the view of many, because of Roosevelt’s refusal to cooperate.⁹³ Bennett, however, cooperated closely with the United States. William Bullitt, who was the Executive Officer on the American delegation reported to Roosevelt on 8 July:

⁸⁸ William Marchington, “Cabinet and Caucus to Hear Washington Offer,” *Globe*, 1 May 1933, 1.

⁸⁹ “U.S. Plans” *Globe*, 1 May 1933, 2

⁹⁰ Boal, 14 April 1933, 47.

⁹¹ Finlayson, 170.

⁹² Leith-Ross, 160.

⁹³ See Clavin for a book-length treatment of the Conference.

To me the most striking feature of the Conference thus far is Bennett's desire to cooperate with us and I think that if you have any plans for reciprocal tariff negotiations with Canada the time is very propitious. ... Bruce of Australia talked to me with violence of the British Government in general and [Foreign Secretary] John Simon in particular, and I wonder if via Canada we might make a hole in the Ottawa Agreements.⁹⁴

By the beginning of 1935, Bennett appeared to be very interested in a trade agreement with the United States, particularly with a Canadian election approaching.⁹⁵ Bennett's efforts did not, however, pay off in a quick trade agreement with the United States, primarily because of slowness on the part of the American Government. The reasons for this slowness are unclear. There has been some suggestion that Roosevelt purposely delayed negotiations because he preferred to deal with a King government.⁹⁶ Possibly too, the Roosevelt administration was unsure how serious the Canadian Government was; after all, a Conservative Government in 1911 campaigned against a free trade agreement with the United States.⁹⁷ Very possibly, however, negotiations did not proceed as quickly as Bennett would have liked because of ambivalence in the United States about the desirability of an agreement with Canada. Roosevelt, after all, did not seek Congressional authority to negotiate reciprocal trade agreements until the summer of 1934, with the Reciprocal Trade Agreements Act. Even after its passage, Herridge thought the New Dealers were not interested in trade agreements.⁹⁸ Although Cordell Hull was a believer in free trade, he was not yet driving policy.⁹⁹ It was thus not until mid-November 1934 that Canada submitted a letter proposing negotiations with the United States. Hull replied in late-December.

⁹⁴ "William C. Bullitt, Executive Officer, American Delegation, London Economic Conference, to Roosevelt, 8, July 1933," in Edgar B. Nixon (ed.), *Franklin D. Roosevelt and Foreign Affairs*, Vol. 1, January 1933 – February 1934 (Cambridge, Mass.: The Belknap Press of Harvard University Press, 1969), 294. "Bruce of Australia" is Stanley Bruce who represented Australia at the Ottawa Conference. In 1933, he was Australian High Commissioner in Britain.

⁹⁵ Blair Neatby, *William Lyon Mackenzie King: The Prism of Unity, 1932-1939* (Toronto: University of Toronto Press, 1975), 113-114.

⁹⁶ Boyko, 265; Waite, 225; and C.P. Stacey, *Canada and the Age of Conflict: A History of Canadian External Policies Volume 2: 1921-1948 The Mackenzie King Era* (Toronto, Buffalo, London: University of Toronto Press, 1981), 173.

⁹⁷ Stacey, 170.

⁹⁸ Finlayson, 178.

⁹⁹ Dallek, 34.

Negotiations did not actually begin until Congress adjourned in the summer of 1935. Mackenzie King succeeded Bennett in office in October 1935. Negotiations with the United States resumed on 4 November, and an agreement was initialed by Mackenzie King and Cordell Hull only four days later, which suggests that the negotiations were at an advanced stage when they were resumed.¹⁰⁰ Indeed, Bothwell and Hillmer write that the 1935 agreement was “sired by Bennett, but midwifed by Mackenzie King.” Finlayson is perhaps even more fulsome – “All that King had to do was sign the treaty that had been brought to the point of completion before the general election of 1935.”¹⁰¹

Conclusion

The Imperial Economic Conference was supposed to be the start of a process that would lead to closer economic cooperation among the various parts of the Empire. It did not turn out that way. The economic dissimilarities and conflicting interests that made negotiations at Ottawa so difficult led in the post-Ottawa period to further disintegration. Both in Britain and in Canada the search for new trading arrangements with countries outside the Empire began almost as soon as the Ottawa Conference adjourned. The British Government within a year had negotiated new trade agreements with the Scandinavian countries and with Argentina.

Canada had to await a change in nationalist, protectionist orientation of economic policy in the United States before it could pursue increased trade with its natural partner. This change began with the election of Franklin Delano Roosevelt in November 1932. The Empire trade orientation that Bennett had been advocating since the 1930 election and which he had succeeded in constructing in part in 1932 did not prevent him from moving to seize the opportunity

¹⁰⁰ Stacey, 174.

¹⁰¹ Bothwell and Hillmer, *The In-Between Time*, 14 and Finlayson, 183.

presented by a more outward-looking American administration. Part of his effort to strengthen trade ties with the United States involved adopting a more accommodating attitude toward American policy in general. Thus, in the run-up to the World Economic Meeting in the summer of 1933, American diplomats found a surprisingly cooperative Canadian Prime Minister.

Conclusion

The Irony of Imperial Conference Diplomacy

Alex Inglis in his introduction to Volume Five of *Documents on Canadian External Relations* refers to the “Whig myth of Canadian Historiography,” which portrays Canadian external relations as a straight line theory of Canadian development from colony to nation. “Unfortunately,” writes Inglis, “there was no place for R.B. Bennett in this scheme of things.” Rather, the Bennett era was seen as “an aberration, a temporary wandering from the straight and narrow path of the true Canadian destiny.”¹ Bennett was often viewed in his day as a devotee of the British Empire. Robert Bothwell and Norman Hillmer write that Bennett was “reputed” to be an imperialist.² J.W. Dafoe suspected that Bennett was moving toward a more centralized Empire.³ Douglas Owram writes that the emerging intellectual reform elite of the 1930s shared a disdain for Tory imperialism.⁴ To be fair, not many historians of the period claim that Bennett’s behaviour at the Ottawa Imperial Conference could be characterized as imperialist. That appears to have done little, however, to change the perception of Bennett as one devoted to the Empire. This thesis has argued that whatever sentimental attachment Bennett may have had to the Empire, it did not affect his view on the economic development of Canada. He had a different approach to economic development than the Liberal Mackenzie King to be sure. His approach, however, was certainly no less, and arguably more, nationalist than King’s. Bennett’s policies in the 1930-1933 period did much to push Canada further along the road to a nation with its own policy-making capability. His trade policy was in the tradition of Macdonald’s National Policy. Under

¹ Alex A. Inglis, “Introduction,” *Documents on Canadian External Relations Volume 5, 1931-1935* (Ottawa: Supply and Services Canada, 1967), ix.

² Robert Bothwell and Norman Hillmer, “Introduction,” in Robert Bothwell and Norman Hillmer (eds.), *The In-Between Time: Canadian External Policy in the 1930s* (Vancouver, Calgary, Toronto, Montreal: Copp Clark Publishing, 1975), 14.

³ Ramsay Cook, *The Politics of John W. Dafoe and the Free Press* (Toronto: University of Toronto Press, 1963), 196.

⁴ Doug Owram, *The Government Generation: Canadian Intellectuals and the State* (Toronto, Buffalo, London: University of Toronto Press, 1986), 168.

Bennett, William Clifford Clark was hired, which began the improvement of the policy-making capacity of the Department of Finance. Clark's hiring also gave impetus to the creation of a central bank for Canada. Thus, if there is a Whig tradition in Canadian historiography as Inglis describes it, then, as this thesis has argued, R.B. Bennett belongs in it.

Both Bennett and King were responding to forces at work in the international environment and the international economy. In explaining Canadian economic policy in this period, therefore, this thesis has sought to draw upon the theoretical literature on international relations and international political economy. The interwar period sometimes is often seen as two distinct periods. The 1920s an era of "visionary hopes," in the words of E.H. Carr, or "illusions" in the words of modern historians William Keylor and Jerry Bannister.⁵ This vision, or illusion, was of a new world order based not upon power and balance of power calculations, but rather upon the rule of law and collective security. A vital component of this idealist vision was a just and open economic order, which in fact was an idealized version of the pre-First World War economic system based on relatively open trade and a monetary system anchored on the international gold standard. The vision did not materialize. For E.H. Carr and other adherents of the "realist" school of international relations, the flaw in the idealist vision was that it ignored the role of power. The apparent acceptance of the international system in the 1920s was due not to satisfaction with the existing order, but to the fact that the dissatisfied powers were too weak to challenge it. The concern with power also prevented the re-establishment of the pre-war economic system. The First World War had underscored the importance of self-sufficiency in vital commodities, which made the establishment of an open trading system

⁵ E.H. Carr, *The Twenty-Years' Crisis, 1919-1939: An Introduction to the Study of International Relations* (New York: Perennial, (1939) 2001), 224 and William R. Keylor and Jerry Bannister, *The Twentieth-Century World: An International History*, Canadian Edition (Don Mills: Oxford University Press, 2005), Ch. 3.

difficult. Over-production of agricultural commodities led to demands from agrarian interests for protection. The inflationary impact of the war, together with political and social changes which made prices and wages slower to adjust, made the gold standard more difficult to re-establish.

A vital ingredient missing in the international economy in the inter-war period, according to Charles Kindleberger, was leadership.⁶ In the pre-war period, British behaviour and leadership lent stability to the international economic system. Coming out of the war, however, Britain no longer had the financial strength to play this role of hegemonic stabilizer. The United States, which did emerge from the war in a potentially dominant financial position, should, according to Kindleberger, have assumed this role. Unfortunately, according to this view, the political ascendancy of isolationist and protectionist interests made that country unwilling to play the role of stabilizing hegemon. Indeed, the United States and France, with their proclivity to hoard gold and to resort to protection to defend domestic interests, led to the breakdown of the system and the onset of economic depression.⁷ The breakdown of the international economic system at the end of the decade contributed to and intensified the struggle. The idealism of the 1920s thus gave way to the grim despair of the 1930s – the second distinct period in the interwar years. The illusions of a new world order were dispelled as the world witnessed “the return of power politics.” The response to the economic depression could also be described as power economics, or in other words a resort to beggar thy neighbour policies of protectionism and economic nationalism. To be sure, the international nature of the depression was evident to all,

⁶ Charles P. Kindleberger, *The World in Depression, 1929-1939* (Berkeley and Los Angeles: University of California Press, (1973) 2013), Ch. 1.

⁷ Gustav Cassel, *The Downfall of the Gold Standard* (London: Frank Cass & Co., 1936) and Douglas Irwin, “Did France Cause the Great Depression,” National Bureau of Economic Research Working Paper No. 16350, September, 1930.

so that calls for economic cooperation were common. Willingness to cooperate was in short supply as governments felt impelled to put their own short-term interests first. As Carr noted, there was an “extraordinary divergence” between economic theories and the practices of economic policy-makers.⁸

In a world where the great powers provide no leadership, the small powers face a dilemma. Do they attempt to supply leadership through self-denial, or do they attempt to protect themselves by emulating the behavior of the great powers.⁹ This was essentially the question around which debates on Canada’s foreign economic in the 1930-1933 period were centered. The 1930 federal election in particular turned on that question. Canada at the beginning of the 1930s was a trade dependent economy – about a third of its annual production was exported. Canada was a major world supplier of numerous commodities. While it was a large trading nation, however, it was not a powerful nation in the sense of being able to determine the rules and practices under which the world trading system operated. Indeed, the Canadian economy was vulnerable in several important respects. Over the course of the first third of the century it had become increasingly specialized in the production of commodities for export to the United States. The demand for and prices of these commodities were highly cyclically sensitive. As well, Canada had become a major borrower in the United States, so that by the early 1930s it had a large debt denominated, or potentially denominated, in foreign currency.¹⁰

When the United States implemented the Smoot-Hawley tariff in 1930, Canada was faced with a serious challenge as to how to respond. Although the measure may not have been aimed

⁸ Carr, 55.

⁹ Kindleberger 162

¹⁰ Many Canadian bonds were payable in the currency of the bondholder’s choice. W.T.G. Hackett, “Canada’s Optional Payment Bonds,” *Canadian Journal of Economics and Political Science* Vol. 1 No. 2 (May 1935), 161-70 and S.R. Noble, “The Monetary Experience of Canada During the Depression,” in A.D. Gayer (ed.), *The Lessons of Monetary Experience: Essays in Honour of Irving Fisher* (New York: Farrar and Rinehart Inc., 1937), 121.

specifically at Canada, it graphically illustrated the effect of asymmetrical dependence on the relative power of nations. Canada depended on the United States to a much greater extent than the United States did on Canada. President Herbert Hoover believed the United States could implement a measure like the Smoot-Hawley tariff without fear of Canadian retaliation.¹¹ The Canadian Government had, as a political necessity, to retaliate in some manner. The obvious response for Canada was to integrate more closely with the other members of the British Empire, which for practical purposes meant Britain. This in fact became the policy of both Liberals and Conservatives in the 1930 election. The fact that an Imperial Conference was scheduled for London soon after Canadian election provided both the opportunity and the obligation to talk about policy toward the Empire.

The difference between the two parties turned on how they would go about it. There were two ways of increasing imperial preference: to reduce tariffs against other members of the Empire, or to increase tariffs against non-members of the Empire. In terms of the dilemma for small states, as stated by Kindleberger, King would attempt to supply leadership by exercising self-denial. He attributed the severity of the depression in part to the decline in trade caused by the growth of trade restrictions. Thus, true to their free trade roots, Liberals campaigned on a promise to promote Empire cooperation through lower tariffs. They appealed to the tradition of Laurier who, in 1897, had granted imperial preference by unilaterally reducing tariffs on British goods. The approach King's favoured for the 1930 election campaign was thus, "The meeting of the ways on the highway of Empire."¹²

¹¹ There were, of course, specific industries and sectors of the American economy, such as the newspaper industry, that did depend on Canadian supplies. Their political influence, however, was at this time swamped by that of sectors calling for protection. Stephen Scheinberg, "Invitation to Empire: Tariffs and the American Economic Expansion in Canada," *Business History Review* Vol. 47 No. 2 (Summer, 1973), 226.

¹² King Diary, 8 June 1930.

Bennett, by contrast, chose to emulate the major powers by increasing protection. This was, however, not merely a question of retaliation; in fact, he avoided the term. Bennett's view was that tariffs were necessary to nurture the development of new industries. He saw America's use of tariffs in the nineteenth century as the means by which the United States had developed into a major industrial power. A pernicious aspect of the Smoot-Hawley tariff, in his view, was that, in allowing free entry of some Canadian commodities used in American industry, it would confine Canada to the role of hewer of wood and drawer of water. Canada would have to escape this fate by growing its own industrial base through the use of tariffs. For Bennett, internationalism was a term of abuse; his slogan during the 1930 campaign was "Canada first." By this he meant that Canadian industries needed protection against British competition as much as they did from American. This led to the spectacle in the 1930 election of the Liberals claiming to be better devotees of the Empire than the Conservatives and accusing their opponents of approaching trade as a war.¹³ Moreover, one of the issues Bennett used most effectively during the campaign was an attack on the Liberals for a trade treaty negotiated in the mid-1920s that had allowed explosive growth of butter imports from the sister Dominion of New Zealand.

The 1930 election turned on the economic debate and the response to the depression. King underestimated how serious the depression was and how badly Canadians were being affected by unemployment. Bennett won the election because he convinced the electorate that he could end unemployment. It was, however, a truncated debate. The economic debate was essentially a debate about tariffs and trade. Monetary and fiscal policies were scarcely mentioned during the campaign. Neither party saw the need for rethinking fiscal and monetary policy. To be sure, the parties and leaders cannot be entirely blamed for this lack of innovation.

¹³ See, for example, "Tories Think Trade Is A War And Would Exact Hard Terms, Premier Tells Vast Audience," *Globe*, 17 June 1930, 1.

Economists of the day offered little useful guidance. As a profession, economists were divided, and even individual economists, such as John Maynard Keynes, often changed their views as they themselves struggled to understand the depression.¹⁴ In Canada, the economics profession was small and had devoted little thought to and acquired little expertise in macroeconomic policy.¹⁵

Bennett won the election with the promise of action and quickly set about acting. Within six weeks of his victory, he had formed a government and summoned a special session of Parliament. In short order, parliament passed legislation providing additional funds for unemployment relief, a major increase in Canadian tariff rates and measures to prevent the dumping of foreign goods in Canadian markets. With these measures in hand, Bennett felt able to attend the London Conference.

The 1930 Imperial Conference is known for the political achievement of clearing the way for the passage of the Statute of Westminster in December 1931. This Statute granted the Dominions more or less complete legislative independence “so far as they desired it.”¹⁶ On the economic side, however, the Conference resulted in a deadlock. For all of Bennett’s reputation in Canada as a devotee of Empire, he did not impress his British hosts as such. His plan for imperial preference, involving as it did tariffs on food imported from outside the Empire, ran into the implacable resistance of the Labour government of the day, and especially of its redoubtable Chancellor of the Exchequer, Philip Snowden. There was some discussion of establishing a quota for wheat from the Dominions, but even this proved too much for the British Government

¹⁴ Donald Markwell, *John Maynard Keynes and International Relations: Economic Paths to War and Peace* (Oxford: Oxford University Press, 2006).

¹⁵ Irving Brecher, *Monetary and Fiscal Thought and Policy in Canada, 1919-1939*, (Toronto: University of Toronto Press, 1957),

¹⁶ C. P. Stacey, *Canada and the Age of Conflict: A History of Canadian External Policies, Volume Two: 1921-1948, The Mackenzie King Era* (Toronto, Buffalo, London: University of Toronto Press, 1981), 133.

to accept if it involved increasing the price. Bennett, however, being the goal-driven leader he was, was not to be put off. He did come away from the London Conference with some personal achievements: the Dominions were united behind his vision and Britain and the Dominions agreed to the convening of an Imperial Economic Conference to be hosted in Ottawa in 1931. Whether a Conference in 1931 would have led to agreement, particularly if the Labour party was still in power was doubtful. Bennett was perhaps hoping that a Conservative government would be in power by the time of the Conference. It would have been clear to him that support for protection was growing in Britain.

As it turned out, the Conference did not take place in 1931 because of political uncertainty in Australia and New Zealand. That was probably for the best. An international financial crisis in the summer of 1931 led to a radical reshaping of the political and economic landscape in Britain. A new National Government in Britain comprising all three major parties was formed in August. Its first major economic change was to take Britain off the international gold standard. A general election in October produced a new government, again comprising three parties, but now dominated by the Conservatives. The Empire protectionist Neville Chamberlain replaced Philip Snowden as Chancellor of the Exchequer. This led to a second major change in British economic policy. In February 1932, Britain abandoned free trade and imposed a ten per cent *ad valorem* duty on most imports. Imports from the Dominions, however, were exempted, but only temporarily pending the outcome of the Imperial Economic Conference now scheduled for the summer of 1932.

On the surface therefore it looked as if prospects for a successful Imperial Economic Conference had improved. Britain had accepted the use of tariffs as an instrument of economic development. Besides trade, two other major issues were on the agenda. Monetary policy was

one of these. Britain's departure from the gold standard had led to two dozen other countries, including Canada, departing as well. In truth, Canada's adherence to the gold standard had been only a polite fiction since the beginning of 1929, but as of October 1931 the fiction could be upheld no longer. The crisis also led to serious debate in Canada about the conduct of monetary policy. The addition of monetary and currency questions to the Ottawa agenda was the result of a parliamentary resolution in Canada requesting it. Observers not only in Canada hoped that the Ottawa Conference might at least begin the movement toward a more stable international monetary system.¹⁷ A third issue, which the British Government particularly wished to discuss, was the establishment of some sort of permanent mechanism to carry on consultation on important issues between Imperial Conferences.

There were some achievements at the Ottawa Conference, principally a network of twelve bilateral trade treaties. Conference participants came away from the meeting claiming it was a success and a first step toward a more integrated economic Empire. Before long, however, most opinion was that it was neither. The agreements were achieved at the last minute after difficult bargaining that left a legacy of bitterness among many of the participants. Much of the writing about the Conference by participants and observers saw it as an opportunity lost because of Bennett's unreasonable demands and bullying behaviour.¹⁸ Others, particularly Lord

¹⁷ Cassel, 86-87 and John Maynard Keynes, "Notes on the Currency Question," in Donald Moggridge (ed.) *The Collected Writings of John Maynard Keynes, Volume XXI Activities 1931-1939, World Crises and Policies in Britain and America* (Cambridge: Macmillan, Cambridge University Press for the Royal Economics Society, 1982), 16-17.

¹⁸ Keith Feiling, *The Life of Neville Chamberlain* (London: Macmillan, 1947), 215-216; J.H. Thomas, *My Story* (London: Hutchinson, 1937), 210; and Dana Wilgress, *Memoirs* (Toronto: The Ryerson Press, 1967), 94-96.

Beaverbrook and Leo Amery, blamed division and indecision in Britain's National Government for the failure.¹⁹

To an international relations theorist, however, particularly of the realist school, the failure of the Conference to achieve more substantial cooperation would not have been a surprise. The principal obstacle was conflicting national interests and the struggle to gain as much advantage from trade while sacrificing as little domestic interest as possible. On trade, Britain wanted access to Dominion markets for its manufactures. At the same time, it was reluctant to impose higher food costs on its population, especially since plentiful supplies of many commodities were available from non-Empire sources. The importance of its trade with non-Empire countries also led it to favour granting imperial preference through tariff reduction. This was closer to Mackenzie King's approach than it was to Bennett's. The Dominions, for their part, wanted to protect their infant industrial sectors from established British competitors – the fact that the Conference was held in Ottawa allowed representatives of many of these industries to attend to ensure their interests were looked after. At the same time the Dominions wanted both guaranteed access to the British market and higher prices for their products. For Bennett, the penetration of the British market by goods being dumped by the Soviet Union was a particular concern.

The British economy had begun to grow again following Britain's departure from the gold standard. The British Government's concern on the monetary issue at the Ottawa Conference was thus to avoid being pressured by the Dominions into surrendering its freedom of action. In particular the Treasury, whose advice Chamberlain followed closely, feared pressure

¹⁹ Lord Beaverbrook, *Friends: Sixty Years of Intimate Personal Relations with R.B. Bennett* (London, Melbourne, Toronto: William Heinemann Ltd., 1959), 70-73 and Leo S. Amery, *My Political Life, Volume III: The Unforgiving Years, 1929-1940* (London: Hutchinson, 1955), 84-88.

to return prematurely to the gold standard or to pursue inflationary policy. For its part, Canada had little reason to push harder. Monetary policy had only recently become an issue of debate and discussion in political circles and there was little expertise in the government. William Clifford Clark had prepared a briefing for Bennett on monetary policy and was hired as a special adviser to the Canadian delegation just before the Conference. Clark advised against a precipitous return to the gold standard. Bennett's proclivity, however, was to resist excessive depreciation primarily out of fear of its effect on Canada's debt servicing costs.

On the third issue at the Ottawa Conference, mechanisms for economic consultation between imperial conferences, the Dominions were unwilling to see anything resembling a permanent secretariat. A Committee on Economic Consultation and Co-operation was set up, which O.D. Skelton later came to chair, but there would be no imperial economic general staff.

The Ottawa Conference is sometimes seen as the high-water mark of economic cooperation. Soon after the Conference, the attention of both Britain and Canada was directed to improving trade prospects elsewhere. Within a year, Britain had signed four trade agreements with other countries. For Canada, the inauguration of a new administration in Washington seemed to present new and interesting possibilities. Bennett was interested in a trade agreement with the United States and was keen to be seen as a helpful ally of the United States in international economic negotiations, even to the point of being willing to pressure Britain. Bennett's desired trade agreement with the United States was not achieved until after he had left office.

The Ottawa Conference is of interest in Canadian history for the effect it had on the development of Canada's policy capability. The Conference very quickly proved no panacea for

the Great Depression. Bennett was therefore beginning to entertain new thinking on monetary issues. William Clifford Clark, who had impressed Bennett, was appointed Deputy Minister of Finance in the fall of 1932. With Clark's appointment and the push for the creation of a central bank in Canada was given strong momentum. With the formation of the Bank of Canada in 1934, Canada acquired the means to conduct an independent monetary policy.

The Ottawa Conference thus illustrated the irony, or what the former British Member of Parliament P.W. Wilson called the paradox, of imperial conference diplomacy: the Dominions meet, but at every meeting they draw further apart. Every Imperial Conference registered steps along the path to further decentralization and left the Dominions more assured of their autonomy.²⁰ Indeed, as Bennett's private secretary Rod Finlayson was later to muse, "the significance of the Ottawa Conference lay in the fact that it brushed away all the old cobwebs of colonial economic subordination, and that it proved for all the Dominions to be an economic corollary to political decentralization."²¹

²⁰ P.W. Wilson, "The British Empire Settles One Main Issue At Ottawa," *New York Times*, 21 July 1932, XX3. The one main issue settled that Wilson is referring to is that the Empire was not and never would be self-contained.

²¹ Rod K. Finlayson, "Life with R.B.: That Man Bennett," unpublished memoir, Library and Archives Canada, Reel H1310, 162.

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