

## Canada and The Marshall Plan, June — December 1947

J. L. Granatstein and R. D. Cuff

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### Article abstract

La position et les réactions du Canada au début des discussions du Plan Marshall furent typiques des principales caractéristiques des relations canado-américaines durant l'après-guerre : accommodement des intérêts politiques des États-Unis et des intérêts économiques canadiens. Malgré des plans de restriction des importations américaines au Canada afin de réaliser une meilleure balance commerciale, le Canada se montra prêt à proposer un tarif moins discriminatoire en échange d'une réduction du tarif américain et d'une participation au bénéfices du plan Marshall. Lorsque le Congrès américain accepta que des denrées puissent être exportées d'en dehors des États-Unis jusqu'à concurrence de 25% des crédits alloués pour le plan, le Canada se vit assuré d'un débouché important pour certaines de ses exportations.

**GRANATSTEIN AND CUFF**

*Précis*

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**J.L. GRANATSTEIN AND R.D. CUFF**  
YORK UNIVERSITY

*Canada and The Marshall  
Plan, June — December 1947\**

Pragmatic self-interest in tension with idealistic internationalism is one characteristic theme of Canadian foreign policy in the postwar era and no more so than in those revolutionary years immediately after 1945 when Canada, too, was "present at the creation". From the vantage point of a rich and powerful North American continent untouched by war, Canada contemplated the devastation of Europe. At the same time, however, like the European nations, Canada nervously eyed its fundamental dollar dependency on the United States. The world had changed, but what R.S. Sayers has called Canada's "bilateral unbalance within a balanced 'North Atlantic Triangle' " remained.<sup>1</sup>

It was Lester Pearson's central historic task to resolve for Canadians in ideology this tension between political hope and economic necessity, and there can be no question of his great success. But the tensions remained in practice: between moralism and military security; between United Nations universalism and N.A.T.O. regionalism; between peacekeeping idealism and material contributions to the American stockpile; between the quest for national autonomy and the bilateral basis of Canadian prosperity. Leading a nation not at all different than the others, Canadian officials had to negotiate their way between the superpowers in a new, nuclear world. And it was both their burden and their opportunity in the late 1940s to be near the geographic centre of the most powerful imperial superpower of all.

How did Canadian officials perceive and respond to America's postwar "creation"? Close study of a variety of relationships is, of course, required for a comprehensive overview. Nevertheless, a case study of Canada's relationship and reactions to the early stages of the Marshall Plan initiative is a microcosm of what we believe to be characteristic patterns of Canadian-American economic relations in the postwar years.

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\* This paper is the first part of a longer study on Canada's relationship to the Marshall Plan, and we have not felt it necessary here to look ahead into 1948-9. Nor have we dealt with the free trade negotiations with the United States in this paper, an event that was occurring at the same time. We have examined this in "The Rise and Fall of Canadian-American Free Trade, 1947-8," a paper presented to the AHA in December 1976 and published in the *CHR* in December 1977.

## I

"I need not tell you, gentleman, that the world situation is very serious." With those words, Secretary of State George C. Marshall began the core of his address to the graduating class at Harvard University on June 5, 1947. The world situation did seem to be deteriorating rapidly. The British and European economies were in ruins, shattered by the impact of the war, and their rehabilitation seemed threatened by a growing and general shortage of American dollars.<sup>2</sup> "The truth of the matter," Marshall said flatly, "is that Europe's requirements for the next three or four years of foreign food and other essential products — principally from America — are so much greater than her present ability to pay that she must have substantial additional help or face economic, social and political deterioration of a very grave character." Such a collapse would hurt the American economy. And although this was only implicit in what the Secretary of State said, it could also lead to the loss of western Europe to the Communists, possibly through military action from the Soviet Union but more likely through the election of Communist governments in the disheartened democracies.

The solution to this problem, Marshall said in a carefully worded statement that had been the product of substantial discussion within the Department of State, was for the United States to assist in alleviating the crisis. Before this could occur, however, "there must be some agreement among the countries of Europe as to requirements of the situation and the part those countries themselves will take in order to give proper effect to whatever action might be undertaken by this Government . . . The role of this country," General Marshall said, "should consist of friendly aid in the drafting of a European program and of later support of such a program. . ."<sup>3</sup>

Although lacking in specifics, the American proposal was a generous one and the Europeans were not slow to take advantage of it. Through the summer of 1947, the meetings and suggestions came with great speed, and by the fall the ground was cleared for action. The Soviet Union and the East European nations in its sphere of influence chose not to participate in the Marshall Plan, a decision that one may confidently assume did not trouble the United States or most of the Western European states very much.<sup>4</sup> The "shopping lists" had been prepared by the Europeans with some American help and direction;<sup>5</sup> now all that remained was to pass the Plan and its huge appropriations through the United States Congress and to work out the details. That would be difficult enough.

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\* Hume Wrong's view of the Soviet refusal to go along with the Marshall Plan is in Department of External Affairs Records, file 264(s), Wrong to Pearson, July 3, 1947: "My impression is that the break-up of the Conference should assist in stimulating support for further aid to the countries that are willing to cooperate with the United Kingdom and France . . . It is, of course, tragic that the 'one-world' conception has been blatantly discarded two years after the signature of the [U.N.] Charter . . . It has, however, been dead for some time . . . Fortunately," the Canadian Ambassador in Washington said, "there is no doubt about who killed it . . ."

For Canada, the Marshall Plan proposals were welcome ones, promising stability in a reconstructed Europe that could only be in Canada's long-term economic and security interests. Lester Pearson, the Undersecretary of State for External Affairs, told Prime Minister Mackenzie King on June 28 that the Marshall suggestion would be "not only of fundamental international value, but would, incidentally, help very greatly to solve our dollar problem as it would put European countries in possession of American dollars, some of which could be used for purchases in Canada."<sup>6</sup> There was an opportunity there, a way of possibly resolving the growing shortage of American dollars that was troubling the Ottawa bureaucracy through mid-1947.<sup>7</sup> In 1946 and 1947 Canada had loaned some \$2 billion to western Europe in an effort to re-build Canadian markets there as well as to contribute to European recovery. Those loans, when linked to a great domestic post-war spending spree on imported American consumer goods, were primarily responsible for the catastrophic drop in Canada's U.S. dollar reserves from \$1667 million in May 1946 to \$480 million in November 1947.<sup>8</sup> Now the Marshall Plan, in its great generosity to Europe, could provide a way out of the morass. To secure as much of the benefits as possible for Canada would become the first task of the Departments of External Affairs and Finance.<sup>9</sup>

The real Canadian difficulty was with Congress, for under the American system of government there were few certitudes. The Secretary of State might propose but Congress would dispose. And in 1947, Congress was dominated by fractious, often isolationist Republicans who were convinced that after the 1948 elections they would be in power and Harry Truman's Democrats would be out. In its present mood, Congress seemed dubious about giving much aid to Europe; if any was given, the benefits that could be secured by purchasing needed supplies would have to stay in the United States.

For example, when the Senate Foreign Relations Committee was considering a bill providing \$350 million for "Relief to the People of Countries Devastated by War" in April 1947, Senator Wallace White, Republican of Maine, was blunt on this point in a closed Committee session: "I think one of the objections that will be raised, and raised with some loud voice, is the possibility that substantial amounts of these relief goods . . . can be purchased abroad with the American market in a position to furnish them. There are going to be a lot of fellows, in my opinion," the Senator orated, "who would much prefer to vote all of this should be of American origin rather than any of it should be of foreign origin, and I would go the very limit in giving assurance by the letter of this legislation that American goods are to be purchased just to the limit of possibilities." Only with some difficulty was the Committee persuaded to accept the State Department's importunings that as much as six percent of the money appropriated could be spend outside the United States.<sup>10</sup>

Hume Wrong, the Canadian Ambassador in Washington, was well aware of the potential difficulties that the Marshall Plan itself might face and equally concerned with the difficult task of getting Canada some of its benefits. On June 20,

he reported to Ottawa on a conversation with Dean Acheson, the Undersecretary of State and a close personal friend. Wrong had told Acheson, then in the last few days of his tenure of office, that Canada's deteriorating dollar holdings would probably necessitate import restrictions unless the Marshall Plan came into effect within a few months. Acheson's reply was bleak: "He said that he did not see how the Marshall Plan could be developed so as to operate before the beginning of next year."<sup>11</sup> Charles Bohlen, one of the State Department's Soviet experts, was somewhat more optimistic when he told Wrong that the Marshall Plan proposal marked the first time the West had seized the initiative since 1945. "General Marshall as a soldier, knew the importance of gaining the initiative . . . He was determined to do his best to keep [it] . . . , and would do his utmost to carry the majority of Congress with him."<sup>12</sup> George Kennan, another Soviet expert now heading the State Department's planning staff, could only suggest to Wrong that "He was fairly sure . . . that the public had much greater trust in the Administration than Congress had and that in time Congressional opinion would be modified as a result."<sup>13</sup>

Bleakest of all was the advice Wrong received from Robert Lovett, Acheson's successor as Undersecretary of State, at the end of July. He said, Wrong wrote to Pearson in Ottawa, "that the advice which they had received from political leaders at the Capitol was that if Congress were convened in the autumn to consider further U.S. aid to Europe, not a dollar would be appropriated." The best that Lovett could suggest was that this might alter "because of a growing sense of crisis", presumably with the Soviet Union, but he was not at all confident. Wrong tried to raise the Canadian dollar shortage with Lovett, pointing out that the Dominion's crisis would affect the American position:

with our U.S. dollar deficit, we could not continue to finance from loans Canadian exports to Europe on the present scale and that, if these exports were reduced, it would increase the pressure on the U.S. to provide goods of the same type and thus have the effect of adding to inflationary tendencies in the United States. He was not, however, impressed by these arguments.\*

Worse still, Lovett, thinking no doubt about the State Department's difficulties with Congress' attitude to "off-shore purchases" in April 1947, "appeared to think that any funds [appropriated by Congress for European aid] would be tied to purchases in the United States . . ."<sup>14</sup>

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\* But one officer at the Canadian desk in the State Department was concerned. He had talked with Dick Murray, second secretary at the Canadian embassy, he reported, and Murray was concerned at the disillusionment in Ottawa on the prospects of any help from the United States. "From the political point of view, this shortage of U.S. dollars is bad for the Liberals who believe in free trade and free enterprise and close friendship with the U.S. The Conservatives believe in free enterprise but not free trade, the CCF believes in neither. If the Liberals are desperately embarrassed by the dollar shortage, and Canada's economy falters, it would obviously strengthen one or both wings of the opposition." U.S. National Archives, State Department Records, 842.5151/8-1447, Memo, M.J. Tibbetts to Andrew Foster, August 14, 1947. Cf. Foster to Atherton, September 8, 1947, *ibid.*, 842.5151/9-847.

*The Financial Post*, looking at the situation from Bay Street, had “grave fears . . . that some American leaders do not yet realize the urgency of prompt and generous backing of the Marshall Plan . . . After the first Great War, the United States made the tragic mistake of turning her back on Europe. In the economic chaos which followed all hopes of democracy were extinguished in the greater part of that continent. A similar mistake by Washington this time,” the *Financial Post* said, “might well eliminate the last foothold.”<sup>15</sup>

That was one lesson that could be drawn by comparing past and present. Another was possible. To a quite extraordinary degree, the situation in that summer of 1947 was remarkably analogous to that in the spring of 1941. Then Canada had been facing a major drain of her holdings of American dollars caused by the large purchases her munitions industries had to make in the still-neutral United States. Those munitions were being manufactured for Britain, and the irony was that the more Canada helped arm the United Kingdom, the further into difficulty she was plunged with the United States. The whole problem was complicated by the building Congressional and public debate over the Lend-Lease Bill, for Canada faced the prospect of seeing “free” American goods drive her munitions out of the British market, an argument that tough-minded British negotiators did not hesitate to make. That crisis had been resolved by the Hyde Park Declaration, that product of “a grand Sunday” in April, negotiated by Mackenzie King and Franklin Roosevelt. Hyde Park had provided the relief Canada needed, charging the British lend-lease account for the materials and components Canada required to produce munitions for overseas. In addition the Americans agreed to buy more from Canada and both measures at a stroke relieved the dollar crisis of 1941.<sup>16</sup>

Now six years later, Canada faced a similar crisis caused largely by her too generous aid to Britain and Europe since the end of the war. Again as in 1941 Canada was caught in the middle, pondering the consequences and watching the Americans and Europeans manoeuvre and search for solutions. About all Canadians could do was to observe closely from their vantage points in Washington, London and Paris, looking for openings, seeking to make the special Canadian case.<sup>17</sup> And again the attitude of Congress would be critical.

Ambassador Wrong returned to this theme of Congressional reluctance in an important despatch on September 26. “It is difficult to realize from a distance the uncertainty that prevails here over the attitude of Congress toward further large-scale assistance to Europe,” he said. “. . . Congress either may refuse to vote any new funds or may whittle down whatever is recommended by the Administration so that the program would be wholly inadequate in both size and duration. Another possibility is that the President, fearful of the reactions of Congress, may not ask enough of Congress.” Wrong added that he, himself, was not pessimistic “because of the high stakes at issue, especially in the ‘cold war’, as [Walter] Lippman calls it, with the Soviet Union.” Then in a particularly provocative passage, Wrong argued that

the behaviour of the Soviet Government provides the strongest popular reason for supporting the Marshall Plan. There is truth in the paradox that, to secure the adoption of a plan for world economic recovery, it is necessary to emphasize the division of the world between the Soviet bloc and the rest. This indicates one ground on which the position of Canada (as a beneficiary from the expenditure of Marshall Plan funds in Canada) might receive special consideration — long-term defence policy. There is both substance and popular appeal in the argument that the defence of the United States requires a strong and productive Canadian economy.<sup>18</sup>

In other words, Wrong seemed to be suggesting that the threat to the free world posed by the Soviet Union might have to be accentuated, if not exaggerated, in order to see the Marshall Plan gain passage through Congress.<sup>19</sup> The Ambassador seemed to see nothing improper in this; indeed he pointed out that Canada might be in a good position to make a case for special treatment as a result of it, particularly if the strategic importance of the Dominion to the United States could be emphasized. What Canada must do, Wrong's message was saying, was stress anew the pervasive theme of common cooperation between the United States and Canada. But even if this was done, there still might be difficulties in convincing the American public and Congress that Marshall funds should be spent in Canada. Senator Taft, the powerful Ohio Republican, had said on September 25 that there should be no off-shore purchasing. "Even if the Administration is satisfied on this point," Wrong's telegram noted, its "views might well be overridden in Congress."<sup>20</sup>

Other officials of External Affairs were also grappling with the problem of the Congress and they too were beginning to focus on the ways Canada could secure special treatment. British and French planning for the Marshall Plan referred to "the needs (in quantities and values) to be covered by aid from outside Europe" and that phrase — "outside Europe" rather than "from the United States" — frightened Ottawa as did the estimate of aid from "other American countries" at \$6.6 billion.<sup>21</sup> Could Canada itself make a contribution to the Plan when it sought U.S. dollars too? But to D.V. LePan at the Canadian High Commission in London, there were opportunities here. In a memorandum on September 25, LePan first noted that a "clear distinction must be drawn between the possibility that Canada might contribute financially to the plan and the possibility that the United States might buy commodities in Canada in implementation of the plan." No one in London or Paris had suggested that Canada should bear any of the financial burden, but if "the United States were prepared to make large purchases for European reconstruction in Canada, I feel that we would probably be able to make some contribution of our own on top of that."<sup>22</sup> Indeed, LePan suggested, the Americans would probably buy more in Canada if "we were to join them in this enterprise and were to make some financial contribution." Secondly, it was in Canada's long-term interest to assist in the reconstruction of Europe. Most important, LePan argued that any Canadian contribution, however small,

would also be of political advantage, I think, to the United States Admini-



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stration. In selling the Marshall programme to public opinion in the United States, the State Department would find it useful to be able to point to at least one other country which was bearing a share of the burden. More generally, a Canadian contribution would also help to introduce some of the shading which the existing world political picture more and more requires. As the gulf deepens between the United States and the Soviet Union and as the general dollar famine spreads, the United States occupies an increasingly solitary position which invites attack . . . Canadian cooperation in the Marshall Plan would tend to show that the western world is not to be pictured as a single giant towering above a cluster of mendicant clients . . . but rather as a group of freely associated states . . . held together by . . . ligaments both of interest and of sentiment.<sup>23</sup>

LePan's argument was clever indeed. As did Wrong he was stressing the importance of cooperating with the United States so that Canada could achieve its economic ends. He also sounded much like Louis St. Laurent, the Secretary of State for External Affairs, who a few months before had remarked that "we know that peoples who live side by side on the same continent cannot disregard each others interests, and we have always been willing to consider the possibility of common action for constructive ends."<sup>24</sup> The new wrinkle in LePan's despatch, much as in Wrong's, was the use of fear of the Soviet Union as a weapon to secure Canadian ends.

Nonetheless, LePan's ideas met little positive response in an Ottawa that was reluctantly moving to the certainty of imposing import restrictions on United States' goods as part of an effort to stem the outflow of American dollars. Compounding the cool reception was the widespread belief that Canada's dollar difficulties stemmed in large part from the already vast sums loaned to Europe since the war. No more money could be given, certainly not until Canada could learn how the United States intended to proceed with the Marshall Plan. Indeed, the entire shape of Canada's restrictions would depend on the Marshall Plan. As Wrong put it on September 26:

On the assumption that action must be taken by Canada before the end of the year to conserve United States dollars, the extent and character of that action depend in part on whether Canada may expect to benefit directly from 'Marshall Plan' dollars by the purchase of some Canadian products either from those now going to Europe mainly on credit or as the result of expanded production, or whether Canada may benefit only indirectly through the easing of the United States dollar shortage in Europe.

In the first case, Wrong added, the benefits would be substantial; in the second they would be both indirect and delayed. What concerned the Ambassador was his growing realization that only the Marshall Plan could rescue the Canadian position. His Embassy had worked hard to stimulate American defence-related purchases in Canada, but for three or four months of effort all that could be shown was \$72,000 in sales.<sup>25</sup>

The difficulties for the hard-pressed Ambassador were compounded by the

caution and coolness of the State Department officials with whom he had to deal. A meeting with Andrew Foster of the British Commonwealth division on September 25 produced little, beyond a comment that it would be unrealistic to expect any American initiatives to help Canada out of its difficulties. In particular, Foster said, it was unrealistic for Canada to expect anything from the Marshall Plan.<sup>26</sup> Foster had also been present a week earlier at a meeting with Clifford Clark, the Deputy Minister of Finance, who similarly had asked if Canada was being included in the planning for the Marshall Plan.

If Canada was included in our thinking, [Foster wrote] and he appreciated that we couldn't say what Congress may do, his Government would apply the least drastic remedies to the present emergency and would declare them to be temporary. But if Canada was not included . . . Canada would be obliged to apply very drastic and long-term remedies.<sup>27</sup>

Clark, in other words, was holding out a *quid pro quo*: help Canada by giving some indication of access to Marshall Plan procurement or else Canada would be forced to take drastic action against American imports on a long-term basis.\* That was about as tough as any Canadian could talk in Washington, but as two American political scientists observed of the Canadian capacity to take economic retaliation against the United States in the 1970s and 1980s, "The deterrence value of Canada's ability to inflict pain upon the United States would depend on Canada's will to suffer great pain itself."<sup>28</sup> That was obviously true in 1947 as well. To restrict imports from the United States would hurt American exporters,<sup>29</sup> but it would hurt Canadians, eager to buy refrigerators and expensive automobiles, even more and that was a political factor that no government could ignore.

If the Americans grasped the nature of the suggestion made by Clark — they could scarcely have missed it — they did not seem overly impressed. At a State Department meeting on September 30, a meeting that brought together almost all the American officials concerned with Canada, including Ray Atherton, the Ambassador in Ottawa, the general response was one of friendly incapacity to act. "The group devoted most of its discussions to the prospects for the Marshall Plan," Foster's memorandum on the discussions noted.

It was agreed that the Plan is in too early a stage for any prudent man to be able to give any sort of assurance as to its prospects. It was further felt that although the executive branch of the Government may decide to ask

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\* Clark may have been simply carrying out the policies of his minister, Douglas Abbott. In a confidential interview with Max Freedman of the *Winnipeg Free Press*, Abbott said "that we are extremely conscious of the United States but they don't know we are here at all. Therefore, if we punched them in the nose they would become aware of us and would realize that we are trying to solve our dollar problem." Abbott also pointed out the extent to which luxury items were responsible for the dollar shortage — "we spent \$45,000 a month on juke boxes." (Queen's University, Grant Dexter Papers, "Telephone Call from Maxie," October 15, 1947.)

Congress for considerable flexibility [which would permit procurement under the Plan to be placed in Canada or would make American dollars available to Western Europe for purchases in Canada] no one could say whether Congress would grant such flexibility. It was noted that there are straws in the wind which indicate that Congress might conceivably allow no flexibility at all and might adopt a relief program under which commodities are purchased in the United States with U.S. dollars and shipped to Europe as straight relief or possibly on a barter basis . . .

It was noteworthy that every officer present feels deeply concerned about the Canadian problem and is convinced that we should do everything possible to assist the Canadians. At the same time it was clear that at the moment there is practically nothing of major substance that lies within our power to do.<sup>30</sup>

There seemed no reason to doubt both the good will of the State Department officers or their inability to do anything in the face of Congressional uncertainties. In fact, it seemed obvious that the American foreign policy elite was in favour of cooperating to the fullest with the Canadians.\* Foster's memorandum of the meeting, for example, held out the first hints that the Truman administration might go to bat for off-shore purchases, for the greatest degree of flexibility possible in the implementation of the Plan. There had not been any indication of that before.\*

At their next meeting with the Canadians on October 1, State Department officials gave the first suggestions of this: "we hoped for such flexibility under the Plan as would permit us to assist Canada by placing procurement but . . . no assurance could be given at present in this regard."<sup>31</sup> Wrong's account of the same meeting stressed one official's comment that "No prudent man could base his decision on the action which ought to be taken on the assumption of Congress voting unrestricted funds for the execution of a generous Marshall Plan." Wrong added this assessment for the Department of External Affairs: if approaches to Senate leaders showed that the whole Plan could be jeopardized

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\* Some in the State Department treated the Canadian problem in a hard-boiled fashion, however. Paul Nitze, Deputy Director of the Office of International Trade Policy, told J.R. Murray of the Canadian Embassy in Washington that while Canada's efforts to aid Europe had been laudable, the government had discovered the consequences "of what happened when the ability of our home production . . . to satisfy the huge additional demands created by the marked inflationary increase in our purchasing power began to decline rapidly . . . this demand spilled over our borders into the United States . . . Our reserves began to disappear rapidly . . ." Nitze went on to say that the United States would shortly be making up the entire deficit of Europe with the hemisphere "and if, therefore, Canada does not take measures to make itself a net contributor to meeting a part of this deficit, and receives substantial amounts of U.S. dollars and gold from the U.K. [the British having received this money in aid from the U.S.], it is, in fact, getting them from the United States . . ." Thus, in Nitze's view, Canada's economy "to the extent that it now constitutes a net drain on the United States economy [has to be] very considerably dampened." (P.A.C., C.D. Howe Papers, vol. 87, file S48-10-6, Memos att. to Wrong to Pearson, 25 Nov. 47. See on this Queen's University, Grant Dexter Papers, Memo, 30 Apr. 49.)

by pressing for off-shore purchases, the Americans "might quite probably not even ask for such funds. It is clear, however," Wrong said, demonstrating that he had not missed the tinge of optimism in the American officials' remarks, "that the officials concerned will urge on the Administration the great advantage of 'a considerable measure of flexibility' . . ." <sup>32</sup>

All this was heartening to the Canadians. The task now was to keep the pressure on so that the State Department and the Administration would make the strongest possible pitch to Congress. Douglas Abbott, the Minister of Finance, had been assured by the Secretary of the Treasury and by the American Ambassador to Britain that this would be done, <sup>33</sup> and Wrong continued his efforts with key officials in the State Department. In a conversation on October 14 with Jack Hickerson, the head of the European division under which all Commonwealth matters fell, he returned to the idea of Canada's making a contribution to the Marshall Plan. "With regard to the political importance here of some offer from us to do what we could" toward a contribution to European recovery,

Hickerson said that he believed that this would be of substantial help. He urged, however, that such an offer, if we were prepared to make it, should be made at a time and in a manner previously agreed with them, so that they could use it to extract the maximum domestic political benefit from it. <sup>34</sup>

Simultaneously, however, the inexorable trend in Ottawa toward the imposition of import controls continued. The choice now was not between controls and no controls; matters had gone too far for that. The options now — and Clifford Clark was bringing them to Washington on October 28 — were between two plans, one "very drastic and discriminatory and the other not". <sup>35</sup>

Discussions on the Canadian dollar-saving plans took place between October 28 and 31, the Canadians being represented by Clark, John Deutsch of the Department of Finance, and Hector McKinnon, the chairman of the Tariff Board. The major American participants were from the Departments of State, Treasury, Commerce and Agriculture, and from the Export-Import Bank. The tough Canadian plan, Plan A, hinged around brutal import restrictions. "Every identifiable consumer item from the United States would be completely banned," Foster's memorandum of the talks observed, "except that citrus fruits, prunes, cabbages, carrots, and textiles would be put under quotas and reduced by one-third to one-half. Capital goods would also be stringently reduced. The second plan, Plan B, would be much less discriminatory against American products but it too would involve quotas. Another feature of Plan B, the carrot along with the stick of Plan A, was described by Foster: "Long-term measures . . . would include diversion of Canadian exports perhaps under a trade treaty whereby the U.S. tariff was reduced and participation of Canada in the Marshall Plan. In the latter connection, Canada hopes that the U.S. may be able to place some of the procurement for the Plan in Canada or make U.S. dollars available in the U.K. or Western Europe for the purchase of commodities in Canada."

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The Americans' response was firm but tactful, particularly so in the light of the stark choices put before them by the Canadians, choices that would certainly cause difficulties with American business interests, farmers and others exporting to Canada. Foster noted:

We endeavoured to persuade the Canadians of our deep concern over their problem and of our anxiety to assist. At the same time, we took considerable pains to place before them the difficulties at our end. As to the Marshall Plan, we indicated that it was still impossible to give any sort of assurance that we would get flexibility from Congress. However, we said that by November 15 it should be possible to tell the Canadians what the Administration's intentions were . . .

We expressed the strong hope that it might be possible for them to adopt Plan B and we emphasized the unfortunate consequences that would follow from Plan A. Plan A would be far more difficult to get out from under and far more difficult for us to defend in the U.S.

The Canadian summary was fuller on the Marshall Plan aspects. On October 30, one senior American official said "that in the two days since the start of the talks the Administration's Marshall Plan policy had firmed up sufficiently to allow him to report that the Executive branch of the Government would make a strong stand to obtain the flexibility which they wish in order to make 'off-shore procurement' possible, although he specifically said he would not wish to have this statement quoted back against him in the event they did not obtain the desired flexibility."

Clearly, both sides were now close to making their trade-offs. "The Canadians had said that they would be compelled to put Plan A or Plan B into effect about the middle of November," Foster wrote, "and it was noted that this would coincide with the summoning of Congress to consider the Marshall Plan . . ." The Americans also pointed out that it would facilitate matters if they could tell Congress that certain items needed for the Marshall Plan and not available in the United States could be provided by Canada. Both sides agreed to work on this, the Americans insisting that the list could not include items Canada was already contracted to supply to Britain and Europe, such as wheat. The list was to be focussed on products which could not be expected to move from Canada unless American dollars were made available for them.<sup>36</sup>

## II

The opening battles for Canada's access to Marshall Plan dollars were now virtually over. A meeting on November 6 between Canadian and American officials went over the lists of supplies that Canada could provide.<sup>37</sup> The next day in Washington, the President's Committee on Foreign Aid, chaired by Averell Harriman, the Secretary of Commerce, reported that

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European recovery can be prevented or halted just as effectively by the inability to obtain wheat from Argentina or Canada for example, as it could by a lack of dollars to buy foods from the United States. Many of the materials and products which Europe needs most urgently are in short supply here. For these items it is clearly in the interests of the people of the United States that European countries buy a maximum of their imports elsewhere. A number of these countries which supply Europe with food and raw materials have been generous in extending aid in the last two years . . . However, a number of countries are beginning to experience serious difficulties . . . [such as] Canada . . .<sup>38</sup>

The Harriman Committee, a blue ribbon group carefully structured to command wide support, suggested further that the United States would have to provide almost \$2 billion to cover Western Europe's trade deficit with the Western Hemisphere exclusive of the United States.

The next week, Secretary Marshall told a joint meeting of the House and Senate Foreign Relations Committees that Marshall Plan dollars should be made available for purchases in Canada and other countries.<sup>39</sup> The proposal to be submitted, Marshall said,

contemplates the use of funds provided under the program for purchases outside the United States of commodities not readily available in sufficient quantities in this country. This policy will tend to protect our home economy against inflationary price movements which might result from concentrated buying in our markets.

It seems clearly in our interest that the greatest possible amount of these supplies be obtained for Europe from other countries. Such countries should be encouraged to contribute directly as much as they can to the recovery programs through grants-in-aid or by extending credits for export to Europe.

The European Recovery Program will be quickly reflected on other countries if the important element of flexibility in purchasing is provided. To the extent that supplies for Europe are procured from nonparticipating countries for dollars, the trade position of these countries with the United States will be improved. In this way we feel that the problems of other Western Hemisphere countries can be met through a combination of the European Recovery Program purchases and normal Export-Import Bank transactions.<sup>40</sup>

Marshall's statement and Harriman's report obviously held much for the Canadian interest.

And in return, as promised, the Canadian government opted for the milder, temporary approach in imposing its restrictions against American imports, a policy announced a few days after Marshall's statement to the Congressional committees.<sup>41</sup> As Kenneth Wilson of *The Financial Post*, a reporter with excellent sources of information in the Cabinet and among the mandarins of the

civil service, pointed out two days before the restrictions were put into place, had there been no suggestion of Marshall Plan help, "it is more than likely that the measures which Canada would have had to take to curb U.S. imports would have been far more drastic and more lasting in their import than those which are shortly to be announced."<sup>42</sup>

For the Canadian negotiators the capstone to their efforts came on December 19 when President Truman delivered his message to Congress on the Marshall Plan proposals. Truman stated the obvious fact that the United States would have to put up most of the aid to Europe. "We expect," he added, "that other countries which have it within their power will also give what assistance they can to Europe. Canada, for example, has been lending assistance to Europe fully as great in proportion to its capacity as that which we have given." A few moments later Truman reaffirmed the Harriman and Marshall proposals for off-shore purchasing: "The funds we make available to aid European recovery . . . should not be restricted to purchases within the United States."<sup>43</sup>

The statements in Washington marked the successful completion of Canada's campaign to get access to Marshall Plan dollars. A variety of details would require attention in subsequent months, including just what financial contribution, if any, Canada might be expected to make. But the general principle of Canadian access to ECA funds for off-shore purchases had been established. The campaign had been arduous and much credit was owed to Wrong and Clark and the others who had argued with such skill. Nonetheless it seems clear that a major reason for the American decision to support off-shore purchasing was domestic. In a confidential interview he gave historians working on the Marshall Plan in 1952, General Marshall said that "The selling of the European Recovery Program to the American people was an exacting task . . . I had good success in enlisting the cooperation of special interest groups although it was particularly tough to get the cooperation of those groups representing items in short supply (wheat . . .) . . ."<sup>44</sup> Clearly, to get the required support for the Plan, Marshall had to indicate that no further strain would be placed on domestic supplies of scarce commodities. Off-shore purchases were the way out for everyone, not least Canada.

There is further confirmation of this in the records of the Senate Foreign Relations Committee in November 1947 when it considered an interim emergency foreign aid bill. The Committee staff in a memorandum to the Majority and Minority leaders of the Committee recommended that 20 to 25 percent of the appropriation should be available for purchases "from any source", that is off-shore. "This would seem desirable in view of the petroleum, coal and fertilizer which must be furnished for the program and some of which must be procured from abroad. The State Department agrees that it would not be objectionable . . ." And when the Committee reported to the Senate on November 21, its attitude was markedly different than it had been in the spring of 1947. It noted:

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At the present time the situation with regard to commodities in short supply has changed considerably. Given a shortage of grain, petroleum and fertilizer in the United States, it would seem desirable to encourage the purchase of more commodities in other countries. To this end, the committee amended section 6 of the bill to provide that not more than 25 percent of the total amount authorized should be used to procure supplies outside the United States . . .<sup>45</sup>

There would be difficulties of similar and different sorts when the Marshall Plan itself came before Congress in the winter of 1948, but so long as domestic shortage existed in the United States it seemed that Canadian interests would be safe.

### III

As John Holmes has noted, “. . . the extent to which the [Canadian] national interest was in fact subordinated to do-goodism by previous governments has been considerably exaggerated.”<sup>46</sup> The story of the Canadian search for access to the largesse of the Marshall Plan certainly bears out this observation. Pragmatic considerations of national self-interest were uppermost in the minds of Canadian officials in the early stages, and they would remain there as Canadian negotiators fought to maintain their place in the face of subsequent attacks by a variety of American interest groups and their spokesmen both in Congress and the Administration. It was a cast of mind that would lead Ambassador Wrong to observe to his friend and superior, Lester Pearson, in April 1948, the month that Congress finally approved the appropriation of funds for the Marshall Plan, that “We now seem to be moving rapidly into a new period of close economic and political cooperation which, it seems to us, calls for the United States government to take a broad, statesmanlike view of its economic relations with Canada, and to do so in a concrete way in the common interest of the two countries (chiefly the political interests of the United States and the economic interests of Canada).”<sup>47</sup>

The common task of historical scholarship in Canada and the United States is to explore the balance between “do-goodism” and national interest in the postwar policies of the two nations, to move beyond official rationalizations to understand the self-interested trade-offs on which postwar arrangements rested. It is probably true that Canadians, less idealistic than their North American compatriots, are not likely to be so surprised at the importance of economic concerns in national decision-making or at the eagerness with which Canadian officials sought to aid the Truman Administration in its end-runs around Congress, even if this required some exaggeration and manipulation of the Soviet threat. But the findings should be instructive nonetheless. For it is now almost a truism to point out that the relationships begun in the First and Second Worlds Wars and renewed and reinforced in the late 1940s established the basic framework for the Canadian-American relationship with which we live today.



## NOTES

<sup>1</sup> R.S. Sayers, *Financial Policy, 1939-1945*, (London, 1956), pp. 322-3.

<sup>2</sup> For a good account of Norwegian problems and attitudes to the Marshall Plan (many of which are not dissimilar to Canada's), see Helge Pharo, "Bridge-building and Reconstruction, Norway Faces the Marshall Plan," *Scandinavian Journal of History*, I (1976), p. 125ff.

<sup>3</sup> Margaret Carlyle, ed., *Documents on International Affairs 1947-8*, (London, 1952), pp. 23ff. Recent accounts of the Plan's origins are D.S. McLellan, *Dean Acheson: The State Department Years* (New York, 1976), pp. 123ff; John Gimbel, *The Origins of the Marshall Plan* (Stanford, 1976), *passim*.; Dean Acheson, *Present at the Creation* (New York, 1969), pp. 226ff; and Joyce and Gabriel Kolko, *The Limits of Power* (New York, 1972), pp. 359ff. Earlier accounts include Howard Ellis, *The Economics of Freedom* (New York, 1950); and Harry B. Price, *The Marshall Plan and its Meaning* (Ithaca, 1955). None of these accounts pay serious attention to off-shore purchasing, or to Canada.

<sup>4</sup> See Blair Bolles, "American Policy Abroad," *Behind the Headlines*, IX (February, 1949), p. 13; Gimbel, p. 267; Kolko, pp. 362-3; Francis Williams, *A Prime Minister Remembers* (London, 1961), pp. 172-3. For contradictory views, see Pharo; Department of External Affairs, External Affairs Records, file 264(s), LePan to Pearson, June 11, 1947.

<sup>5</sup> Descriptions of the process can be found in External Affairs Records, file 264(s). One example is a memo, "The Marshall Plan", July 17, 1947.

<sup>6</sup> *Ibid.*, Memo, Pearson to King, June 28, 1947; External Affairs Records, file 265(s), T. Stone to Pearson, June 12, 1947; *The Financial Post*, June 14, 1947, p. 1.

<sup>7</sup> Britain and Western Europe took virtually all of Canada's wheat exports, nearly two-thirds of her flour, one-third her nickel, half her lead and zinc, and two-thirds her aluminum. "The continued prosperity of virtually every region of Canada, from east to west, was thus bound up with this trade and so dependent on the future of Europe." R.A. Spencer, *Canada and World Affairs 1946-1949* (Toronto, 1959), p. 230.

<sup>8</sup> A good analysis is in Public Archives of Canada [P.A.C.], C.D. Howe Papers, vol. 87, file S48-10, "The Canadian Exchange Problem," August 18, 1947, by Alex Skelton. See also R.C. McIvor and J.H. Panabaker, "Canadian Post-war Monetary Policy, 1946-52," *Canadian Journal of Economics and Political Science*, XX (May, 1954), p. 215; J.D. Gibson, "Post-War Economic Developments and Policy in Canada," *C.J.E.P.S.*, XX (November, 1954), pp. 446-7; and J.D. Gibson, "General Review," in J.D. Gibson, ed., *Canada's Economy in a Changing World* (Toronto, 1948) pp. 285 ff.

<sup>9</sup> P.A.C., External Affairs Records, Washington Embassy files, vol. 2158, "Economic Cooperation, Canada-U.S.," Memo re Discussions at State Department, June 11, 1947. See also the good account by W.A. Mackintosh, "Dependence on Export Markets Overseas," in Gibson, ed., pp. 130ff.

<sup>10</sup> *Hearings Held in Executive Session Before the Committee on Foreign Relations, United States Senate, 80th Congress . . . on H.J. Res. 152 . . . and S. 1774 . . .* (Washington, 1973), pp. 55-6. On the general theme of Congressional-Executive relations in the period see Susan M. Hartmann, *Truman and the 80th Congress* (Columbia, Mo., 1971). Cf External Affairs Records, file TS 264(s), Memo for the Prime Minister, 2 June 1947.

<sup>11</sup> *Ibid.*, file 265(s), Tel. Wrong to Pearson, June 20, 1947.

<sup>12</sup> *Ibid.*, file 2AE(s), Wrong to Pearson, July 14, 1947 and encl.

<sup>13</sup> *Ibid.*, file 264(s), Wrong to Pearson, July 17, 1947.

<sup>14</sup> *Ibid.*, file 265(s), Wrong to Pearson, July 30, 1947.

<sup>15</sup> *The Financial Post*, July 26, 1947. For the different views of a counterpart American periodical, see the *Wall Street Journal*, September 11, 16, 1947.

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<sup>16</sup> See on Hyde Park, R.D. Cuff and J.L. Granatstein, *Canadian-American Relations in Wartime* (Toronto, 1975), chap. IV.

<sup>17</sup> E.g., External Affairs Records, file 264(s), Bryce to Clark, August 30, 1947; *ibid.*, Wrong to Secretary of State for *External Affairs*, September 4, 6, 1947; *Canadian Mining Journal*, October, 1974, editorial.

<sup>18</sup> External Affairs Records, file 264(s), Wrong to S.S.E.A., September 26, 1947. Cf. *ibid.*, Moran to Pearson, September 27, 1947. A good source for Congressional attitudes in A.H. Vandenberg, Jr., *The Private Papers of Senator Vandenberg* (Boston, 1952), pp. 373ff.

<sup>19</sup> There were others than Wrong thinking in this way. Gimbel, p. 267, cites a State Department planning report of May 23, 1947 that did not see "communist activities as the root of the difficulties of western Europe." Maurice Pope, *Soldiers and Politicians* (Toronto, 1962), p. 332, noted J.D. Hickerson's comment that "Molotov's tactics" had "been damn fool enough to hook the U.S. into the European jackpot — something the State Department could not possibly have done for themselves." Cf. Kolko, p. 376; David Horowitz, *From Yalta to Vietnam* (London, 1971), p. 78.

<sup>20</sup> External Affairs Records, file 264(s), Wrong to S.S.E.A., September 26, 1947.

<sup>21</sup> *Ibid.*, Memo, "Canadian interest in the Marshall Plan for the Reconstruction of Europe," n.d.; P.A.C., Department of Finance Records, vol. 843, file 800-4-4, R.M. Keith to R.B. Bryce, September 27, 1947; *Financial Post*, October 4, 1947; External Affairs Records, file 264(s), Memo for Mr. Wheelock, September 22, 1947. Earlier, Mackenzie King had written in his diary that Canada "would find it increasingly difficult to loan abroad or make further advances for relief, etc. This may not be a misfortune. The sooner the country or more the Gov't. realizes that we can't go on spending at will the better." J.W. Pickersgill and D.F. Forster, *The Mackenzie King Record, Vol. IV: 1947-48* (Toronto, 1970), p. 84.

<sup>22</sup> LePan's point was made by Wrong, too, in External Affairs Records, file TS 265(s), Wrong to Clark, October 2, 1947. John Deutsch confirmed the existence of this idea in an interview, August 22, 1975. See also the *King Record*, IV, pp. 126-7.

<sup>23</sup> External Affairs Records, file 264(s), Memo, "Canada and the Marshall Plan," September 25, 1947; *ibid.*, Robertson to Pearson, September 24, 1947; *ibid.*, Memo, Escott Reid to Pearson, October 8, 1947. Cf. *Financial Post*, October 18, 1947 which closely parallels Reid's memo.

<sup>24</sup> L.S. St. Laurent, *The Foundations of Canadian Policy in World Affairs* (Toronto, 1947), pp. 31-33.

<sup>25</sup> External Affairs Records, file 264(s), Wrong to S.S.E.A., September 26, 1947; *ibid.*, file 265(s), Wrong to Clark, September 26, 1947; *ibid.*, file 264(s), Beaudry to Robertson, September 26, 1947. Earlier U.S. estimates of defence purchases in Canada had put the best figures at \$25-50 million, admittedly insufficient to affect the dollar shortage. United States National Archives and Records Service, State Department Records, 842.5151/6-2347, Secretary of State to U.S. Embassy, London, June 23, 1947, and 842.5151/6-2547, Memo, Hickerson to Acheson, June 25, 1947. Two comments by J. Douglas Gibson are germane. "A certain lack of realism is suggested by the spectacle of Canada postponing action in the face of a rapidly deteriorating exchange position in the hope that the European Recovery Program would be promptly implemented . . ." (*C.J.E.P.S.*, XX, p. 447). Later he would write ("The Changing Influence of the United States on the Canadian Economy," *C.J.E.P.S.*, XXII (November, 1956), p. 423) that "we have had no practicable alternative to increasing our exports to the United States . . . No remotely comparable opportunity . . . has been available in the sterling area or elsewhere, particularly in the early post-war period. . . ."

<sup>26</sup> External Affairs Records, Washington Embassy files, vol. 2158, Economic Co-

operation, Canada-U.S., "Memo of Conversation . . .," September 25, 1947. Cf. *Ibid.*, file 264(s), Wrong to S.S.E.A., September 30 and October 2, 1947.

<sup>27</sup> State Department Records, 842.5151/9-2747, Memo, Foster to Hickerson, September 27, 1947. This memo is printed in *Foreign Relations of the United States 1947* (Washington, 1970), III, pp. 124-6.

<sup>28</sup> Robert Keohane and Joseph Nye, Jr., "Introduction: The Complex Politics of Canadian-American Interdependence," in Annette Baker Fox, *et al.*, *Canada and the United States: Transnational and Transgovernmental Relations* (New York, 1976), p. 9.

<sup>29</sup> "Canada is the United States' best customer. During 1947, the United States sold to Canada over \$2,000 millions worth of goods — more than the combined sales to her second and third largest customers, Britain and France." Bank of Nova Scotia, *Monthly Review*, July, 1948. See D.C. MacGregor, "Dependence on Imports from the United States," in Gibson, ed., pp. 180ff.

<sup>30</sup> State Department Records, 842.5151/9-3047, Memo, "The Canadian Dollar Problem," September 30, 1947.

<sup>31</sup> *Ibid.*, 842.5151/10-147, Memo, "Canadian Dollar Problem," October 1, 1947.

<sup>32</sup> External Affairs Records, file 265(s), Wrong to Clark, October 2, 1947.

<sup>33</sup> Douglas Library, Queen's University, Grant Dexter papers, "Telephone call from Maxie [Freedman]," October 15, 1947

<sup>34</sup> External Affairs Records, file 264(s), Wrong to Robertson, October 14, 1947.

<sup>35</sup> *Ibid.*; cf. *Foreign Relations of the United States, 1947*, vol. III, pp. 126-7.

<sup>36</sup> State Department Records, 842.5151/11-147, "Memorandum for the Files," November 1, 1947; External Affairs Records, TS 265(s), Tel. Canadian Ambassador to S.S.E.A., November 1, 1947 and "Summary of U.S. — Canadian Financial Discussions, November 1, 1947"; *Foreign Relations of the United States 1947*, III, p. 129ff.

<sup>37</sup> Department of Finance Records, Deutsch files, vol. 3617, file I.T.O., "Note of Meeting . . . November 6, 1947". Cf. State Department Records, FW 611:422-10/2649, "Memo of Conversation," Dec .47, by Willoughby in Ottawa.

<sup>38</sup> Cited in Spencer, pp. 231-2; External Affairs Records, file 264(s), Wrong to S.S.E.A., November 10, 1947.

<sup>39</sup> Department of Finance Records, Deutsch files, vol. 3617, file I.T.O., "Note of Meeting . . . November 6, 1947"; *Financial Post*, November 15, 1947.

<sup>40</sup> *Ibid.*

<sup>41</sup> See on the restrictions, *The Financial Post*, November 22, 1947; *Foreign Relations of the United States 1947*, III, p. 130ff.

<sup>42</sup> *The Financial Post*, November 15, 1947.

<sup>43</sup> Carlyle, pp. 52, 60, 66; External Affairs Records, file 264(s), Wrong to S.S.E.A., December 15, 1947.

<sup>44</sup> John F. Kennedy Library, John Kenneth Galbraith Papers, Box 26, E.C.A. History Project files, Interview with George C. Marshall, October 30, 1952.

<sup>45</sup> *Hearings Held in Executive Session . . .*: "Memorandum to Senator Vanderburg and Senator Connolly," November 17, 1947, pp. 349-51 and "Report on European Interim Aid Act of 1947," p. 384.

<sup>46</sup> John W. Holmes, "Impact of Domestic Political Factors on Canadian-American Relations: Canada," in Fox, *et al.*, p. 22, n. 4.

<sup>47</sup> External Affairs Records, file 264(s), Wrong to Pearson, April 15, 1948.