

The Path to Temptation: The Negotiation of Canada's Reconstruction Loan to Britain in 1946

Hector M. MacKenzie

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Article abstract

Pendant la Deuxième Guerre Mondiale, la dépendance économique du Canada vis-à-vis du commerce international augmenta considérablement. En 1944, en effet, les exportations canadiennes comptaient pour 31 pour cent du revenu national. La bonne part de ces exportations, toutefois, était dirigée vers le Royaume-Uni et était surtout constituée des contributions canadiennes à ce qu'il était convenu d'appeler, à l'époque, l'effort de guerre. Conséquemment, tout au long des années de guerre, le marché britannique exerça une influence certaine, voire souvent décisive, sur les politiques économiques extérieures du Canada. On comprend, dès lors, que le Canada ait surveillé de près les politiques commerciales de Whitehall, préoccupé qu'il était des problèmes que poserait le financement des échanges commerciaux entre les pays pendant la période de transition entre la guerre et la paix et de la nécessité qu'il y avait de s'assurer un marché stable et prospère dans le futur.

L'auteur étudie ici une des ententes qui résulta de ces préoccupations, soit celle d'un prêt consenti par le Canada au Royaume-Uni, en 1946, en vue de sa reconstruction. En replaçant toute la question dans le contexte des intérêts économiques et politiques du gouvernement canadien de l'époque, l'auteur examine l'arrière-plan de la démarche et retrace minutieusement les diverses négociations qui aboutirent à l'entente finale.

The Path to Temptation: The Negotiation of Canada's Reconstruction Loan to Britain in 1946

HECTOR M. MACKENZIE

During the Second World War, Canada's economic dependence on international trade, previously significant, increased substantially. By 1944, according to calculations by the Department of Finance, exports accounted for 37 per cent of national income.¹ However, Canada's prosperity was precarious. Most of its exports to the United Kingdom were contributions to the war effort which had been largely financed, directly or indirectly, by the Canadian government. Canada's own exchange problem with the United States had been solved by a combination of exceptional military sales under the Hyde Park agreement and fortuitous circumstances. Given the decline in British fortunes, it was unlikely that Canada could revert to the pre-war arrangement which Sayers so aptly described as "bilateral unbalance within a balanced 'North Atlantic Triangle'."² Throughout the war, the fate of the British market had been an important, often decisive, influence on Canada's external economic policy. Gradually, the attention of economic advisers and politicians in Ottawa shifted to the problem of how to finance trade with Britain after Lend-Lease and Mutual Aid, particularly in Stage III, the transition from war to peace.

Understandably, the Canadians cast a wary eye at developments in Whitehall. For practical as well as idealistic reasons, Ottawa had enthusiastically supported London's initiative on commercial policy during 1943. After hopes for a multilateral scheme for world trade expansion faded in 1944, the Canadian government increasingly resorted to bilateral methods to achieve its aims. The culmination of these deliberations was Canada's reconstruction loan to Britain in March 1946, a key element in its search for prosperity and stability in post-war trade. The purpose of this paper is to place that assistance in its appropriate context, through an examination of the background to the measure and of the negotiations which led to an ambitious and hopeful example of enlightened self-interest.

During 1944, the Canadians had been disturbed by ominous indications that the British were in full retreat from multilateralism. At the Commonwealth gatherings in February and May, it was obvious that the British Cabinet was seriously divided on commercial policy and that further progress was unlikely for some time.³ In August,

1. Public Archives of Canada (hereafter PAC), Records of the Department of Finance (hereafter DF), vol. 764, pp. 304-6: Table, n.d. (based on figures from *Canada Year Book* for 1945 and the Dominion Bureau of Statistics).
2. R. S. Sayers, *Financial Policy 1939-45* (London, 1956), pp. 322-3.
3. British Library of Political and Economic Science (BLPES), Dalton Diary, 8 May 1944, and 15 May 1944 (remarks by Robertson).

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that extraordinary representative of the British Treasury, Lord Keynes, used the threat of trade restrictions on an exchange basis to prompt Canadian ministers and officials to adopt a more generous approach to finance, with some effect.⁴ Graham Towers, Governor of the Bank of Canada, was particularly concerned by a British memorandum which “implicitly assumes a narrow bilateral trading world, and the discussion is almost entirely on financial terms without even the sugar-coating of some reference to the possibilities of freer multilateral trading.”⁵ Given Canada’s dependence on exports for post-war prosperity, the Canadians had to decide “whether we look to the U.K. as a market to which we expect to export over the decades after the war.” If so, then Ottawa “should be prepared to invest in a valuable customer and finance her purchases through her period of difficulty for the purpose of maintaining our position in this market” by mutual aid or post-war credits.⁶ This disposition was reinforced by evidence that trade was being diverted from Canada, and that the British government intended not only to substitute home production but also to displace Canadian exports to other parts of the sterling area, notably in agricultural machinery.⁷ When he returned to Ottawa late in November, Keynes restated that British credit must be reserved for Stage III, when mutual aid or its equivalent would not be available to meet a substantial deficit.⁸ In fact, the lesson had been learned.

On 1 December 1944 James L. Hsley, the Minister of Finance, explained the immediate link between finance and British purchases in Canada to the Cabinet at a meeting which also approved long-term contracts with Britain for supplies of beef and pork. “From our point of view,” Prime Minister William Lyon Mackenzie King reflected, “the whole business relates back to making sure of our holding a place in the British market.”⁹ The Deputy Minister of Finance, Clifford Clark, was disturbed by the drift of Anglo-Canadian trade. After justifying wartime financial assistance largely on the basis that “it was in Canada’s interest to help rebuild a strong United Kingdom, which had always been her best customer,” it now appeared that “Canada alone among the Commonwealth” would be hampered by exchange considerations in trade. Apparently, the sterling area would be “sitting pretty” while Canada was “left out on a limb.”¹⁰ This concern would soon be translated into a practical proposal.

For that purpose, perhaps the most important discussion was an informal conversation between Towers and Keynes. Towers was worried by the bilateralist tendency in Britain, which Keynes confirmed. To correct this, Towers suggested a

4. J.L. Granatstein, “Settling the Accounts: Anglo-Canadian War Finance, 1943-45”, *Queen’s Quarterly*, LXXXIII (1976), pp. 240-2.
5. Bank of Canada, Towers Papers, Towers, Memorandum, 10 August 1944.
6. PAC, DF 474; U-3-9, Mackintosh, Memorandum, 6 October 1944. *Ibid.*, Privy Council Office Papers 42/D-13-5-5 4: Canadian Mutual Aid Board (CMAB), Records of discussion, 13 October 1944.
7. Department of External Affairs (DEA)/154(s): Pierce, Memorandum, 23 November 1944. External Trade Advisory Committee, Minutes: 26 September 1944. Public Record Office (PRO) Cab 66, 52: WP (44)360. J.S. Duncan, *Not a One-Way Street* (Toronto, 1971), pp. 131-2.
8. DF/474/U-3-9: Note of meeting, 29 November 1944.
9. PAC: Cabinet Conclusions: 1 December 1944. PAC King Diary: 1 December 1944.
10. PRO: T160/1377.F.17969.024/1: Munro, Memorandum, 7 December 1944.

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scheme to deal comprehensively with the British financial predicament. As amended by Keynes, aid would be provided by the United States (\$4 billion), Canada (\$750 million) and Sweden (\$250 million), with a further gift (\$3 billion) from their war balances. On the condition that a further quarter would be forgiven, London would redeem one quarter of the sterling debt for hard currency. Consequently, the United Kingdom would be left with a war debt of \$6 billion, plus \$5 billion on terms which were not discussed. Although Towers doubted the chances for a gift, Keynes assured him "that on this basis he thought the U.K. should be willing to make sterling fully convertible from the word 'Go'." Of course, if there were renewed difficulty over the balance of payments, convertibility would be suspended.¹¹

Early in 1945, Towers circulated a paper which was largely based on this discussion. As part of a comprehensive solution, he proposed a credit of \$1.2 billion for British purchases in Canada. As a condition, imports from Canada would be treated identically to those from sterling countries. However, the United Kingdom would retain the power to restrict all imports to balance its international accounts. To overcome British anxiety about repayment, the credit would be repaid at a rate of \$60 million per annum, to commence ten years after Japan's defeat. A "waiver clause" could be inserted to protect the British exchange position: if British reserves fell below a stated minimum, repayment would be deferred. Finally, the rate of interest must be competitive with that for sterling balances or for an American offer. Therefore, part of the credit should be made available in Canadian dollars at 2 per cent, while some of it could involve sterling accumulation, earning the Treasury Bill rate, for an over-all rate of interest below 2 per cent. Towers concluded that this offer should be made despite uncertainty about American action or the British response, since "the stakes for which we are playing are too large for us to neglect any opportunities."¹² Although this document anticipated the eventual agreements in Washington and in Ottawa, those outcomes were never so predictable as a simple comparison would suggest.

Like Towers, Clifford Clark favoured an informal approach to "smoke out" British opinion and to influence it on trade. On 18 January 1945, they secured the decisive support of influential members of the Mutual Aid Board for Towers' proposal.¹³ Cables subsequently drafted by officials were endorsed by the Cabinet War Committee, then sent on 23 February 1945. In view of its interest in multilateral trade and its fear that the transition would be used to establish persistent forms of discrimination, Canada was prepared to underwrite British imports after the war. Instead of a conventional loan, Ottawa offered a long-term credit, repayable in annual instalments beginning ten years after the end of Stage III, with a waiver clause if exchange was unobtainable.¹⁴ This message was supplemented by a personal appeal to Churchill from King.¹⁵

11. Towers Papers: Towers, Memorandum, 29 November 1944.

12. DEA/154(s): Towers, Memorandum, enclosed with Towers to Robertson, 8 January 1945.

13. DEA/154(s): Note of meeting, 18 January 1945.

14. PAC/Cabinet War Committee (CWC), Minutes: 14 February 1945. King Diary: 13 and 16 February 1945. PAC/King Papers (KP)/J1/391: SSEA to SSDA, No. 45, 23 February 1945; SSEA to SSDA, No. 46, 23 February 1945.

15. KP/J1, 391: SSEA to SSDA, No. 47, 23 February 1945.

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As one British official commented, these telegrams were “not bolts from the blue.” London had been forewarned that Clark was obsessed with British policy on trade and the transition and that Canadian ministers shared his disquiet.¹⁶ The Board of Trade reacted favourably: since some assistance from North America would likely prove necessary, the important question concerned the terms. “If we play our hand well,” Sir Percivale Liesching wrote, “the terms may be so good as to justify acceptance.”¹⁷ Although officials in the Foreign Office were receptive to the proposals and arguments advanced by the Canadians, they were principally concerned about the implications for arrangements with the United States.¹⁸

On 4 March 1945 a reply to King’s personal telegram was sent under Churchill’s name. The Treasury had objected to a Dominions Office draft which assumed too great an obligation to Canada. Instead, a “stalling answer” was sent which requested “elucidation” from Ottawa about the continuation of mutual aid. As Sir Wilfrid Eady remarked,

...at the Treasury we thought it unwise to rush consideration of these telegrams. Canada is worried and she is worried because there are not going to be enough Dollars in the Sterling Area to purchase all the goods that Canada would like to sell. It is not against our interest to let her worry a bit more....¹⁹

In fact, whatever decision was reached with the Americans for Stage III would determine the approach to Canada. Though it pleased King, Churchill’s response did not satisfy Canadian officials.²⁰

At this time the British were not yet prepared to settle Stage III finance, let alone commercial policy. In late March, Canadian officials were invited to England to review the British position and to clarify their offer, despite some opposition in the War Cabinet.²¹ Initially, the Canadian cables had failed to “smoke out” British opinion as intended. However, that outcome was predictable, since Towers himself had sketched the offer as part of a comprehensive solution to the British exchange problem, involving the United States and others. Also, the wartime coalition government in London was unlikely to commit the United Kingdom, particularly given the division within its ranks on the question. In fact, the Treasury would confidentially disclose its plans to Towers and his colleagues during the visit to England.

Before the informal talks, consideration of finance and trade progressed in both countries. In Canada a deliberately uncontroversial summary of government plans for reconstruction was published in April 1945. By the time the White Paper on

16. PRO: BT11/2730: Liesching, Note, 26 February 1945; Cab 110:45: UKHC (C) to SSDA, No. 184, 27 January 1945.

17. BT11/2730: Liesching, Note, 26 February 1945; Dalton, Minute, 28 February 1945; Overton, Minute, 3 March 1945.

18. PRO: FO371/45895/UE883: Ashton, Minute, 27 February 1945; Coulson, Minute, 28 February 1945; Hall-Patch, Minute, 17 March 1945.

19. T160/1377/F.17969/024/2: Eady, Minute, 6 March 1945.

20. King Diary: 5 March 1945; DF/408/101-106-2: Bryce, Memorandum, 10 March 1945.

21. T160/1377/F.17969/024/2: Eady, Note, 7 March 1945; Anderson to Cherwell, 29 March 1945; Cab 66.63: WP(45)182; Cab 65:49: WM34(45)I. PCO Papers: 30: U-10-15: CHC(UK) to SSEA, A.160, 4 May 1945. D.V. LePan, *Bright Glass of Memory* (Toronto, 1979), p. 69.

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“Employment and Income with Special Reference to the Initial Period of Reconstruction” was issued, many of the measures included therein had been enacted, while other programmes had been approved by the Cabinet. Informative rather than innovative, the White Paper was intended to reassure the Canadian public about the uncertain economic future rather than to provoke debate. Nonetheless, it did accurately indicate the reliance of the Canadian government on exports for prosperity after the war, when it would aim at a target of \$1.75 billion in annual exports — half the current rate but still 60 per cent by value or 15 per cent by volume above the pre-war level. Tentatively, the White Paper laid the foundation for exceptional financial aid after the war to potential customers, especially the United Kingdom and Europe.²²

Much more important to our narrative was the development of British policy. In early April, after criticism of a first draft within the Treasury, Keynes revised a paper on external finance in the transition which was the basis for British financial negotiations with both the United States and Canada.²³ According to Keynes, multilateralism was compatible with the ultimate objective of the Treasury and the Bank of England, eventual financial independence from the United States. With maximum effort, British current expenditure overseas would only decline gradually. It would take perhaps five years to reach equilibrium in the balance of payments, with the bulk of the deficit outside the sterling area. In the circumstances, assistance from the dollar countries in the interim was essential. Thus, Ottawa’s offer was a positive development.

In view of the attention which a bilateral course, based on expansion of the sterling area and continuation of wartime austerity, had received, Keynes warned of its consequences. Not only would North America retaliate, with generous credits to attract customers, but countries both inside and outside the sterling area would be unlikely to co-operate. The nadir of British fortunes, Keynes observed, was not the time to importune creditors for more aid simply to counter American influence. If, as Keynes assumed, the Americans would use their financial power for a fair offer to the British, that was the preferred route. For practical and tactical reasons, “it is necessary to keep alive the disagreeable, indeed the disastrous alternative, without, however, disguising from ourselves its true character.” Keynes was convinced that a multilateral system was in Britain’s interest, not simply a concession which must be made for assistance. Bilateral arrangements would not secure sufficient benefits for British exporters. Moreover, London’s place as a financial and commercial centre could only be maintained with sterling freely convertible. Far from being its salvation, bilateralism would doom the sterling area.

22. *Employment and Income with Special Reference to the Initial Period of Reconstruction* (Ottawa, 1945); A.D.P. Heaney, *The Things that are Caesar's* (Toronto, 1972), p. 82; W.A. Mackintosh, “Canadian Economic Policy from 1945 to 1957 – Origins and Influences”, in Aitken *et al.*, *The American Economic Impact on Canada* (Durham, N.C., 1959), pp. 57 and 59-60.

23. T236/436: Keynes, Memorandum, 18 March 1945; Eady, Minute, 21 March 1945; Waley, Note, (20 March 1945); Clarke, Note, 27 March 1945. T247/49: Eady to Keynes, 27 March 1945. Cab 66/45: WP(45)301.

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With characteristic flair, Keynes then sketched the alternatives. Bilateralism, which must be plausible for negotiations but which Keynes opposed, was graphically labelled "Starvation Corner." Another option was "Temptation." Keynes calculated that at least \$5 billion, with a call on another \$3 billion, would be required for freedom of action in world trade. The United States would lend vast sums on its own terms, which would be easy to negotiate. In such a settlement, interest might be set at 2 to 2½ per cent, with flexible repayment of capital, including deferral or possibly a waiver. In return, the United Kingdom would be obliged to permit free multilateral clearing within the sterling area from the beginning possibly including the abnormal wartime balances, to make trade concessions under Article VII, and to negotiate the "wind-up" of Lend-Lease.

"If we could do no better," Keynes speculated prophetically, "most of us would, when we were right up against it, prefer this Temptation to Starvation Corner." However, it must be resisted, as an inappropriate conclusion to the war effort and an inadequate instrument for restoration of trade. Keynes also warned negotiators to beware any modification of "Temptation," whether by reduction of the interest rate to 1 per cent or by deferral of the final date of discharge, to resemble the ideal solution, "Justice".

"Justice" would include a refund of British payments before Lend-Lease, or a grant of \$3 billion. Without necessarily sacrificing its transitional rights, Britain would agree to the *de facto* convertibility of current sterling earnings one year after the end of the war. This would be accompanied by an approach to sterling creditors, as discussed with Towers in November 1944. Also, the United Kingdom would have a call on a further \$5 billion for ten years, repayable on easy terms at a token rate of interest, perhaps 1 per cent. With this model, Keynes expected that Canada would lend \$500 million on identical terms. Keynes was under no illusion that "Justice" would be easy to secure. Both it and the austere alternative must be kept in view during negotiations. However, he was convinced that a political case could be made for "Justice." If retrospective Lend-Lease proved unacceptable to the Americans, \$3 billion could be added to the credit. Unfortunately, "politically and psychologically it would be greatly inferior" to "Justice."²⁴

Though this memorandum was endorsed as Treasury policy, not all of Keynes' colleagues nor the ministers who examined it were convinced that it was practicable. From Washington, R. H. Brand warned that the American public and Congress were not yet convinced of the need for "Justice."²⁵ Nonetheless, Keynes maintained that the request for a grant must be the "opening gambit."²⁶ By early June, Keynes admitted to Brand that he was not so optimistic as the memorandum suggested. "I do not believe that we shall get just what we are now talking about," he wrote, "but that we shall in the end get something not too unsatisfactory I do incline to believe."²⁷ Meanwhile the

24. Cab 66/45: WP(45)301.

25. D. Moggridge, ed., *The Collected Writings of John Maynard Keynes, XXIV: Activities 1944-1946, the Transition to Peace* (London, 1979), pp. 331-5: Brand to Keynes, 14 May 1945.

26. *Ibid.*, pp. 339-43: Keynes to Brand, 30 May 1945.

27. *Ibid.*, pp. 343-5: Keynes to Brand, 5 June 1945.

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bilateral alternative, which Keynes reluctantly conceded was tactically necessary, began to take shape, with emphasis on the need to export a high level of British industrial production and to cut imports by permanent reduction of demand for food, petroleum and industrial products.²⁸ During the next few months, planning for the bilateral option continued, though discussions with Canadian officials were based on the Keynes plan.

An invitation to visit England, first extended by Keynes in January, was renewed in response to Ottawa's cables.²⁹ Although Clark was unable to attend, it was eventually agreed that Towers, W.A. Mackintosh and H.B. McKinnon would be guests of Keynes at King's College, Cambridge, an idyllic location deliberately chosen to "soften up" the visitors. Simply put, the purpose of the talks would be "to send the Canadians back reassured about our [British] good-will and in a mood not to force the pace." Before the more important negotiations with the United States, no "final decisions" could be taken with Canada, though an exchange of views on Stage III could be useful. Therefore, the Canadian credit proposals must be politely declined.³⁰

The meetings took place in the Audit Room of King's College, which one Canadian participant recalled as a "large well-proportioned room, with high ceilings and high windows looking out on a garden," its walls adorned with paintings by Roger Fry.³¹ Keynes began, as planned, with a confidential exposition of the paper only recently circulated to the War Cabinet. Keynes would emphasise that if "Justice" was not achieved, "then we might well have to fall back on something nearer their ideas."³² On Saturday morning, 19 May 1945, Keynes assessed the problem of British external finance in the transition, as well as the alternative solutions entitled "Starvation Corner" and "Temptation" while the afternoon was devoted to "Justice." When Keynes explained the danger that the differences between "Justice" and "Temptation" might become obscured during negotiations, Eady interjected "that the United Kingdom must not give Washington the impression that it had come to try to get the best terms it could, but that, after making the attempt, it was bound to accept whatever terms the United States must offer." Both comments foreshadowed difficulties which would be encountered later in the American capital.

When Keynes invited comments, Towers questioned the practicability of "Justice," especially the grant. Instead, he suggested a request for a credit of \$8 billion, with flexible repayment. This was opposed by the British delegates, especially Eady, who strongly resisted financial scrutiny by the American Treasury. Towers declared that, whatever the provisions of the agreement reached with the United States, "Canada would be willing to play her part." On reflection, Towers felt obliged to

28. T236 436: Clarke, Memorandum, 11 May 1945.

29. DF 3992/U-3-8: Keynes to Clark, 16 January 1945.

30. T236 31: UKHC(C) to SSDA, No. 847, 13 April 1945. SSDA to UKHC(C), No. 730, 16 April 1945; UKHC(C) to SSDA, No. 901, 19 April 1945; UKHC(C) to SSDA, No. 959, 26 April 1945; (Harmer), Note, (11 May 1945); Harmer, Minute, 11 May 1945. B111; 2730: Helmore, Note, 7 May 1945.

31. LePan, *Bright Glass*, p. 77.

32. T236 31: Keynes, Minute, 14 May 1945.

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underline Ottawa's opposition to "Starvation Corner" when talks resumed the next day.

During the first meeting, Keynes expressed appreciation of the spirit and imagination of Canada's offer for the transition. Though acceptable in principle, there were problems of detail. The provision for "flexibility" in repayment could be misinterpreted, particularly later, when the need for "Justice" was not so obvious. The Treasury wished to avoid any implication of default, "however disguised."³³ At Cambridge, as before, the Canadians did not specify a rate of interest, a question which would resurface. In fact, Towers was disappointed that the British did not seek improvements in Canada's offer. Instead, the matter was left unsettled before the Anglo-American economic negotiations.³⁴ Canadian officials had attended a dress rehearsal of the arguments which Keynes would employ later in Washington. The only tangible result for Canada was a specific bilateral concession on treatment of its trade with the sterling area, deliberately made to appease the visitors.³⁵

After the Canadian visit, discussion resumed in Whitehall on post-war finance, with emphasis on the need for an alternative to the Keynes plan, if only as a "fall-back." Though careful not to oppose "Justice," Eady was concerned that the mood and momentum of negotiations would dictate an unsatisfactory conclusion. With a "Plan II" in reserve, the British could suspend talks. Eady recognised that "Plan II" posed serious problems, especially food supplies immediately after the war. However, he anticipated that "Justice" might be "too simple and bold for the U.S. Administration." If so, the path would lead to "Temptation."³⁶ On Treasury instructions, the Ministry of Food pared its estimates of British requirements from North America to a minimum, though the Permanent Secretary warned that the resultant hardship would not be politically practicable.³⁷

Needless to say, Keynes was disturbed by the growing tendency to look upon "Starvation Corner" not as a last resort but as a preferred choice. "If a tidal wave were to overwhelm North and South America," Keynes caricatured this view, "our subsequent financial problems would not be too bad and nothing worse than starvation would supervene." As Keynes argued, the variations evaded the real issue: if the United States did not provide aid, who would? Other members of the sterling area would have their own difficulties.³⁸

One critic, C.F. Cobbold, a Director of the Bank of England (and after September 1945 its Deputy Governor), suspected that, as Towers had indicated, a proposal for a grant and a credit would soon be translated into an offer of a larger

33. DEA 154(s): (LePan), Minutes, (19-21 May 1945), enclosed with CHC(UK) to SSEA, A. 665, 31 December 1945. T236 31: Notes of meetings, 19 May and 20 May 1945. LePan, *Bright Glass*, pp. 73-96.

34. Towers Papers: Towers, Memorandum, 17 January 1946.

35. T236 31: Keynes to Brand, 29 May 1945; Eady, Minute, 31 May 1945; Note of meeting, 28 May 1945 (with annex). BT11 2765: Keynes to Mackintosh, 31 May 1945, with enclosures.

36. T236/437: Eady, Note, 25 June 1945; Clarke, Note, 27 June 1945.

37. T236 436: Eady to French, 4 June 1945; French to Eady, 7 June 1945. T236 437: French to Eady, 2 July 1945; Note of meeting, 5 July 1945.

38. T247 49: Keynes, Minute, 9 July 1945.

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loan.³⁹ When Brand returned from Washington, he questioned the whole tone of the plea for "Justice." After all, the United Kingdom sought aid from the United States and Canada "not because of any question of justice, but because of their resources." Having determined the economic need for a grant, the Treasury had contrived political arguments to suit its conclusion. Certainly a commercial loan was impossible, but the case of exceptional treatment should be based on an appeal to American self-interest, as well as generosity. Finally, Brand rejected the artificial distinction between a grant and a loan; any obligation that the United Kingdom could repay, which must approximate a grant, should be acceptable.⁴⁰

In late July, the approach to the United States neared its final form when Keynes revealed a change in tactics for Washington. Instead of a grant of \$3 billion and a line of credit of \$5 billion, which he feared would be converted into a loan for the total sum, Keynes now favoured a grant of \$4 billion, with no credit. With additional aid from Canada and Sweden, Keynes "thought we should get through."⁴¹ Thus, the directive to British negotiators took shape, partially influenced — though not as they expected — by Canadian advice at Cambridge.

Since May the context for these negotiations had changed dramatically. After the defeat of Germany, the Potsdam Conference revealed fissures in the wartime alliance. Within a fortnight of its conclusion, the atomic bomb had transformed modern warfare and Japan had surrendered. Unexpectedly, on 26 July 1945, the British Labour Party assumed office with its first parliamentary majority. Although Clement Attlee and his senior ministers — notably the new Chancellor of the Exchequer, Hugh Dalton, and the Foreign Secretary, Ernest Bevin — had participated in Churchill's coalition government, their specific responsibilities were new.

While the British were understandably preoccupied with their own political revolution and their economic problems, there had been significant changes elsewhere. After Roosevelt's death in April, Harry S. Truman had become the thirty-third President of the United States. Henry Morgenthau was replaced as Secretary of the Treasury by Fred Vinson, a conservative Democrat from Kentucky, anxious to please Congress and the public and comparatively unsympathetic to the British plight. Later, James Byrnes succeeded the ineffective Edward Stettinius as Secretary of State. The reluctance of the Truman Administration to press a reassertive Congress for authority to make comprehensive tariff reductions had been an unfavourable omen for external economic policy.

In Canada, there had been no change in leadership, though the Liberals were returned with only a slim majority. During the campaign, exports had been exalted as

39. T236/437: (Cobbold), Note, 12 July 1945 (enclosed with Cobbold to Eady, 17 July 1945).

40. T247/49: Brand, Note, 20 July 1945. Curiously, Keynes himself had warned against relying too much on appeals for "Justice" in his report on the negotiations in Washington on Stage II: "I am not sure how far the story of our past effort would carry us if it were not supported by the very strong conviction, upon which I have been dilating above, that our future strength is an objective of major concern to the United States and to Canada." Keynes, Memorandum, 12 December 1944, printed in *Collected Writings*, XXIV, pp. 192-221.

41. T236/437: Note of meeting, 18 July 1945; Note of meeting, 20 July 1945; Note of meeting, 23 July 1945; Note of meeting, 30 July 1945.

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the key to Canada's future prosperity. Despite the rise of the CCF, the markedly pro-British Progressive Conservatives remained the official Opposition. However, King's dependence on Quebec as his political base complicated the outlook for Canadian aid to Britain.

The war against Japan alone (Stage II), which had been expected to last eighteen months, was over in less than fourteen weeks. Consequently only a brief and inconclusive discussion of American assistance took place in London with Will Clayton, Assistant Secretary of State for Economic Affairs, before war's end.⁴² Negotiations which the British Treasury had presumed would take place in the context of a common war effort would now commence in Stage III, without much latitude for a tactical suspension. On 16 August 1945 the new British Cabinet considered a restatement by Keynes of the financial dilemma. At least \$5 billion would be required for its needs, with the United States and Canada as the only sources. Otherwise the United Kingdom would face a "financial Dunkirk." No longer so optimistic, Keynes forecast that "we shall in the end accept the best terms we can get." However, he urged that the negotiators be given no discretion except to accept a grant. Thus, the delegation was authorised to negotiate *ad referendum*.⁴³ Keynes and the British ambassador in Washington, Lord Halifax, would be assisted by R.H. Brand, Chairman of the British Supply Council, and Sir Henry Self, his deputy. Unfortunately, the British government also accepted Keynes' advice not to send delegates empowered to discuss commercial policy to Washington, a tactical error which simply aroused American suspicions about British intentions. Eventually, Sir Percivale Liesching, Second Secretary of the Board of Trade, and Professor Lionel Robbins of the Cabinet Office reinforced the party.⁴⁴

En route to Washington, Keynes and his associates visited Ottawa, where they secured interim assistance for immediate British requirements. Generally, Keynes was impressed by the "keen desire" of ministers and officials "to ease our position and to help our forthcoming American negotiations," an attitude which he correctly ascribed to Canada's interest in trade with Britain and the sterling area.⁴⁵ During this visit, Keynes also discussed the prospects for Stage III finance with Canadian officials, particularly Towers. In Washington, Keynes intended to conclude an exposition of Britain's position with a request for \$5 billion from the United States for Stage III. The Americans would then be asked what form their contribution would take. If a grant was impossible, a credit would be acceptable, provided "some element of flexibility," such as the Canadians had previously recommended, was introduced. In return, the United Kingdom would offer, by the end of 1946, convertibility of current earnings in the sterling area as part of a non-discretionary trade policy.

42. R. Harrod, *The Life of John Maynard Keynes* (London, 1951), pp. 593-4. United States Treasury Department (USTD) OASIA Acc.67-A-1804/35 US State-Treasury (Clayton-Glasser) Mission Talks: Glasser Taylor to White, No. 431, 8 August 1945; Memorandum of conversation, 3 August 1945; Memorandum of meeting, 3 August 1945; Memorandum of meeting, 14 August 1945.

43. Cab 128/1: CM23(45)4. Cab 129/1: CP(45)112. Cab 78/37: Ministerial committee, 23 August 1945. Harrod, *Keynes*, pp. 596-7.

44. L. Robbins, *Autobiography of an Economist* (London, 1971), pp. 204-6.

45. T236 629: UKHC(C) to SSDA, No. 1843, 6 September 1945, Keynes to Dalton.

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Towers strongly criticised this approach, so unlike that depicted at Cambridge; it would likely “lead to a U.S. credit more or less rigid in character,” inadequate and inappropriate for trade expansion. After the British outlined their position and stated their requirements, Towers advised that they should relate alternative solutions to the various options in their external economic policy. For only a loan, the consequence would be “Starvation Corner.” In fact, Keynes followed this advice in Washington, without success. After these conversations, Keynes felt that Canada would follow a liberal American lead, if it was given.⁴⁶

The negotiations in Washington began on 11 September 1945. After a general statement of purposes by Halifax, Keynes sketched the British position with their alternatives, then elaborated on those at a financial sub-committee. For normal trade, the British would need \$5 billion from the United States, as well as assistance from the sterling area and Canada. Without it, more than three-quarters of their trade could be redirected to the sterling area.⁴⁷ Unfortunately, a statistical comparison of respective war efforts, which Keynes used to reinforce the case for “Justice,” simply alienated his American audience, who also became impatient with British “stalling.” Negotiations were further complicated by tension between Keynes and Vinson.⁴⁸ For the next two months, discussions took place informally and inconclusively between senior delegates.

During this hiatus, a number of options were considered, though hardly as envisaged at Cambridge or described in London. It became increasingly difficult to reconcile perceptions in Whitehall with those of the British delegation, let alone with American views. At an early stage, Vinson and Clayton ruled out a grant, except possibly in combination with a low-interest loan.⁴⁹ That elusive prospect distracted and obsessed British officials and ministers, who had earlier been persuaded by Keynes that it was not only just but possible. Regrettably, the Truman Administration was not convinced that “Justice” was politically defensible.

As for the bilateral alternative, it was simply not convincing. When the Treasury balked at the annual service for a loan, with or without interest, Keynes warned that

46. Towers Papers: Towers, Note of conversation, 5 September 1945. T236/438: Keynes, Memorandum, 9 September 1945, enclosed with Keynes to Eady, 10 September 1945.
47. USTD/OASIA/Acc.67-A-1804/36/UK-US Economic Discussions 1945/Financial: COM/TOP (45) 1st Mtg.: 11 September 1945 (further references to COM/TOP meetings are from this file unless otherwise noted); COM/TOP(45)2nd mtg: 13 September 1945; COM/TOP(45)3rd mtg: 14 September 1945. Cab 130/6: COM/FIN(45)1st mtg: 19 September 1945; COM; FIN(45)2nd mtg: 20 September 1945. Cab 78/37: GEN. 89/1: Keynes, Memorandum, circulated in London on 12 September 1945.
48. COM/TOP(45)4th Mtg: 17 September 1945. United States National Archives(USNA)/U.S. State Department(USSD)/611.4131/9-1845: Raynor, Memorandum, 18 September 1945. T236/438: Keynes to Eady, 27 September 1945; Lee, Memorandum, 24 September 1945. Robbins, *Autobiography*, pp. 205-6. Harrod gives the misleading impression that this was a pitfall which Keynes would have anticipated and avoided, through his sketch of the thoughts of Keynes before the first session. Harrod, *Keynes*, p. 601. R.N. Gardner, *Sterling-Dollar Diplomacy*: 2nd ed. (New York, 1969), pp. 199-201.
49. Cab 78/37: GEN.89/4. Annex II: HMA(USA) to SSFA, No. 6490, 27 September 1945. BLPES, Meade Diary, 6 October 1945.

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interim finance (with the clean-up of Lend-Lease) would cost more than that, if the British broke off negotiations. "Thus we should have accepted the burden," he noted, "without reaching a solution."⁵⁰ In fact, this was the tactical weakness which undermined the credibility of "Starvation Corner." In 1946 alone, the United Kingdom would need at least \$1 billion. To borrow such a sum on commercial terms – unlikely in any event without Washington's support – would cost as much as larger credit on the various terms proposed by the Americans.⁵¹

The generosity which Keynes had anticipated was lost in Washington's labyrinth. American Treasury experts estimated the British deficit in payments over three years at \$3.3 billion, an absurdly low figure, rather than \$5.3 billion, as London forecast. Assistant Secretary Harry White concluded that it would take only \$4.4 billion to deal with British payments and the sterling balances! White also advised that a "strong case can be made for no interest rate," but Vinson was unimpressed.⁵² Later, the possibility of aid from Canada and South Africa was used to reduce the American offer.⁵³

Negotiations were further complicated by their informal nature. For instance, on 9 October 1945, Clayton suggested an untied loan of \$5 billion repayable after five years in fifty annual instalments, with an additional annuity of \$50 million for interest which could be waived if circumstances warranted.⁵⁴ On the Treasury's advice, British ministers rejected that.⁵⁵ Perhaps predictably, the Americans substituted an inferior offer. When Keynes referred to the previous proposal, only ten days after it was made, he was informed that the amount suggested was impossible!⁵⁶ Meanwhile, in Whitehall, the Treasury advanced a number of chimerical schemes, blithely ignoring the advice of its representatives in Washington. The new champions of "Justice," Eady and Cobbold, would not be tempted. Not until late November, two weeks after formal negotiations resumed, did the British cabinet recognise that a loan of \$4.5 billion at 2 per cent was "the best which we can hope to secure." However, there was still a significant difference in perceptions between London and Washington, particularly over a specific date for convertibility, which the United States demanded.⁵⁷ Unconvinced that a better deal was impossible, Dalton sent Sir Edward Bridges, Permanent Secretary of the Treasury and Secretary of the Cabinet, to Washington "to

50. Moggridge, *Collected Writings*, XXIV, pp. 428-31: Keynes to Eady, 4 October 1945.

51. See report by Robbins on Cab 78/37; GEN.89/5th Mtg: 5 November 1945.

52. USTD/OASIA/Acc.67-A-1804. 30/UK-Postwar Aid: White to Vinson, 7 October 1945, enclosing memorandum. T236/438: Keynes to Eady, 5 October 1945; Keynes, Memorandum, 5 October 1945.

53. USTD/Havlik Papers/5: US:FIN, 4th Mtg: 17 October 1945.

54. Moggridge, *Collected Writings*, XXIV, pp. 537-8(text). BLPES, Meade Diary, 20 October 1945.

55. Cab 78/37, GEN.89/3rd Mtg: 12 October 1945.

56. Cab 78/37, GEN.89/7: JSM(W) to CO, NABOB 191, 20 October 1945 (Keynes to Dalton).

57. Cab 128/4, CM57(45)3, 29 November 1945 (Confidential Annex). Dalton Diary: 7 December 1945. Meade Diary: 3 November 1945; 18 November 1945; 2 December 1945. H. Dalton, *High Tide and After* (London, 1962), pp. 78-9.

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pull things together," without significant effect.⁵⁸ As late as 4 December 1945, the British Cabinet came close to a break.⁵⁹

Eventually, President Truman "split the difference" between recommendations by Vinson and Clayton to arrive at a figure of \$3.75 billion for the American loan. Repayment would begin after five years, with interest at 2 per cent, which could be waived if the British reserves or their importing capacity were threatened. However, the waiver clause proved to be an ineffective instrument. As for Lend-Lease, the wartime slate was wiped clean, while the British owed \$650 million for surplus property and goods in the "pipeline," on the same terms as the new credit. After the long series of discussions on Article VII, the government finally published "Proposals for Consideration by an International Conference on Trade and Employment," though in this context it appeared to be a concession for aid rather than an agreed statement of policy. Under other clauses of the accord, the British government was committed to sterling convertibility within one year of its effective date and to non-discrimination in its import controls. Finally, under Article 6(ii) which became known in Ottawa as the "Canadian clause" the British could not borrow from Commonwealth governments on terms more favourable to the lender.⁶⁰ This stipulation, intended to satisfy Congress that nobody else would get a better deal, further ensured that the Washington financial agreement would directly influence the settlement in Ottawa.

During these negotiations, Canada, with other Dominions, was generally informed, albeit reluctantly, by Keynes. The drift of discussions was disclosed, but not the split between the British delegation and Whitehall.⁶¹ In fact, Ottawa supplemented its information with reports from Canada House, which accurately described the mood in London, and with a briefing at the Treasury in October, when Norman Robertson accompanied Mackenzie King for consultations on the Gouzenko spy affair.⁶² While the Canadians sympathised with the British plight, they shared American opposition to a bilateral remedy based on an exclusive sterling system for obvious reasons. In fact, a tentative approach had been made to co-ordinate Canadian with American lending policy.⁶³

More significantly, in mid-October, Towers consulted the negotiators in

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58. Dalton Diary: 7 December 1945. Dalton, *High Tide*, pp. 83-4. Robbins, *Autobiography*, p. 210. Harrod, *Keynes*, p. 613.
 59. Dalton Diary: 7 December 1945. Cab 128, 4, CM58(45)2, 3 December 1945 (Confidential Annex).
 60. Gardner, *Sterling-Dollar Diplomacy*, chapters X-XI and Appendix. H.S. Truman, *Year of Decisions* (Garden City, 1955), p. 479.
 61. PRO/DO35/1216/WR254/78: Cochran to Clutterbuck, 4 September 1945; Cochran to Snelling, 15 September 1945; note of meeting, 15 September 1945; note of meeting, 18 September 1945. DEA/198(s), CA(USA) to SSEA, WA5824, 17 November 1945; CA(USA) to SSEA, WA6040, 1 December 1945.
 62. DEA, 198(s), CHC(UK) to SSEA, A.491, 19 October 1945; CHC(UK) to SSEA, A.508, 25 October 1945. PAC/LePan Papers I/1: CHC(UK) to SSEA, A.483, 13 October 1945.
 63. USSD/842.51 10-145, USA(C) to SS, No. 3054, 1 October 1945 – /10-345: USA(C) to SS, A-99, 30 October 1945. LePan Papers/1/1: Draft despatch, Towers Papers, Towers to Wrong, 5 November 1945.

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Washington. As Keynes reported, the British took him "pretty fully into our confidence." The American attitude disappointed Towers, who initially opposed any solution less satisfactory than an interest-free loan. However, he reconsidered when he heard Keynes' version of the waiver. According to Towers, the British would be "on weak ground in refusing this provided the target figure for our external income was high enough." Towers' advice had an immediate impact: Keynes redrafted the waiver with a revised objective. In addition, Towers urged the British delegation to "strenuously resist" reduction of the amount of the credit.⁶⁴

On 19 October 1945, after learning that the Americans had offered only \$3.5 billion at 2 per cent, Towers attempted to dispel the facile optimism of Clayton and his colleagues in the State Department.⁶⁵ As part of his "Cassandra act" he warned them against a "penurious policy" which would also affect Canada. Later, White reassured Towers that they would not "whittle down" the amount of the credit, though the Treasury questioned British calculations. When pressed by White, Towers rashly revealed that, in his personal view, Canada would lend \$1 billion to the United Kingdom.⁶⁶ Vinson used this information to justify a smaller loan, while Keynes based his recommendation for Canadian aid on this indiscretion.⁶⁷ As we shall see, Ottawa's reaction to the American agreement would also influence London's perception of what assistance it could get from Canada.

As in the later stages of the war, trade would also affect the Anglo-Canadian financial settlement. Long before the negotiations in Washington had concluded, Canada's attention turned to possible trade conditions for its finance in Stage III, perhaps simply an extension of the bilateral agreement after the Cambridge talks. That concession had failed to stifle frequent complaints from Canadian producers excluded from the British market. The Deputy Minister of Trade and Commerce, Max Mackenzie, warned the British High Commissioner, Malcolm MacDonald, that dissatisfaction with the British import restrictions would influence Parliament's attitude to finance.⁶⁸ After a British statement of their position, read to the Canadian House of Commons, failed to silence critics, the Canadians decided to seek "small token shipments of a range of articles" to ease the situation, before a financial accord was negotiated.⁶⁹

During January of 1946 Mackenzie negotiated a "token import" concession with British officials in London. Worth 20 per cent of 1938 imports chosen from lists of

64. T236/455, JSM(W) to CO, NABOB 192, 19 October 1945 (Keynes to Dalton). Towers Papers, Towers, Notes on conversations, 5 November 1945.

65. USSD/611.4131/10-1945, Memorandum of conversation, 19 October 1945. The American note plays down the informed criticism offered by Towers and it reflects the more optimistic appraisal by Clayton.

66. Towers Papers, Towers, Notes on conversations, 5 November 1945. DEA/198(s): Stone to Wrong, 23 October 1945; Wrong to Pierce, 29 October 1945. T.A. Stone of the Canadian Embassy was present when Towers met Clayton.

67. T236/629, JSM(W) to CO, NABOB 306, 7 November 1945 (Keynes to Dalton).

68. DF/659/184SA, Bryce, Memorandum, 22 October 1945; (Kemp), note of discussions, 22 November 1945. BT11/2765, Wiseman to Helmore, 22 November 1945.

69. DF/659/184SA, Mackenzie to Mackintosh, 6 December 1945, enclosing memorandum. BT11/2765: UKHC(C) to SSDA, No. 2509, 10 December 1945.

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eligible goods, the agreement was to be implemented in stages after a policy statement on the subject had been made. Both the Board of Trade and the Treasury supported the scheme, the latter because Canadian resentment at exclusion from the British market was "one of the main obstacles to our getting good terms on a loan from Canada." Eady, who had been designated to head the British financial negotiating team, was anxious for prompt ratification before talks began in Ottawa.⁷⁰ Unfortunately, the Chancellor of the Exchequer did not share this view. Alarmed at the trend of British international payments, Dalton bluntly minuted his rejection of the plan:

This is Canadian blackmailing – a la Yank! I would agree to this for Canada, provided we got a good loan from them. But I wouldn't announce it till the loan is in the bag.⁷¹

For Mackenzie and his colleagues, this delay negated the purpose of the concession. Instead of refuting the charge of protectionism, thereby assisting passage of a loan, "it would be regarded not only as inadequate but completely derisory." As a result, there was no specific indication that the British recognised the political difficulty for the Cabinet in defending post-war generosity.⁷² As we shall see, this was a decisive consideration for King.

British expectations for finance from Canada were influenced by the Cambridge discussions and by Canadian reactions to the outcome of the Washington negotiations, although they ignored clear indications that Ottawa would follow that precedent as the United States intended. After Towers had been indiscreetly informative in Washington, Keynes believed that Canada's anxiety about its trade might elicit generous assistance. At least as an opening bid, the British should seek an interest-free loan as requested from the Americans. Although its specific needs in Canada were unpredictable, the Treasury regarded \$1 billion as an appropriate contribution "towards our difficulties," with a possible option on a further sum.⁷³

After the Washington agreement was signed, the Canadians were obviously disappointed at the American attitude and disturbed by Article 6(ii). As a result, the American settlement would "very closely dictate the limits" of any arrangements with Canada.⁷⁴ Nonetheless, Keynes felt that the British should not feel too closely bound by the Washington precedent. An appeal to "Canadian prestige," he mistakenly advised, might be beneficial.⁷⁵ While the American agreement might define the terms,

70. See notes of meetings on BT11, 3225, T236, 36; Woods to Rowe-Dutton, 1 February 1946, enclosing memorandum; Clarke, Note, 4 February 1946; Rowe-Dutton, Minute, 4 February 1946.

71. T236, 36; Dalton, Minute, 4 February 1946.

72. DO35/1220 WT665/111, I; Wiseman, Minute, 8 February 1946; Holmes, Minute, 8 February 1946; UKHC(C) to SSDA, No. 239, 9 February 1946.

73. T236, 629; JSM(W) to CO, NABOB 306, 7 November 1945 (Keynes to Dalton); SSDA to UKHC(C), No. 1980, 10 November 1945.

74. T236, 629; UKHC(C) to SSDA, No. 2053, 10 December 1945; UKHC(C) to SSDA, No. 2054, 10 December 1945; Munro, Note, 15 December 1945.

75. BT11, 2765; Negotiations with Canada (Preliminary Talks), Meetings: 19 December 1945; 20 December 1945.

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the Treasury's brief for its negotiators contended that "the point on which we might hope for improvement is on the interest rate." As for war debt, the link between British holdings and the 1942 loan should be broken and the air training liability should be cancelled, thereby reducing their obligations to "a more manageable figure." For the Treasury, having learned its lessons in Washington, the fundamental questions of the transition, especially trade, were the most important elements in its case, to which finance must be related.⁷⁶ In that context, Dalton's decision not to implement the token import policy was a serious setback for the British delegates.

Keynes himself declined to make the journey to Ottawa. In any event, Sir Edward Bridges did not expect "the same need for exposition by a master of finances and economics of the British government case," presumably because it was familiar to the Canadians. Instead, the delegation would be headed by Eady accompanied by Cobbold, who had also been highly critical of the Washington settlement.⁷⁷ Before he left London, Eady warned Douglas LePan of Canada House that an agreement identical to the American loan would be difficult to defend in Westminster. "It is the less tractable," LePan remarked, "and, if I might also say, the less sensible team of advisers which is going to Ottawa."⁷⁸ Evidently, the Treasury believed that it could do no worse than in Washington, while Eady was convinced that he could do better.

However, from the Canadian perspective, the new loan should mirror the American terms for interest, repayment and waiver. British discrimination against Canada must be prevented, but other conditions were unnecessary:

We will get the benefit of the American stipulations in this regard, and as long as we are sure that the U.K. does not discriminate against Canada we should be amply protected. This should enable us to escape the censure which the U.S.-U.K. agreement encountered because of the serious and detailed conditions that it imposed on the U.K.

For the United Kingdom alone, the amount would be \$1 billion, or \$1.25 billion for the sterling area, with regulated release of the credit. As for the 1942 loan and the air training debt, these could be continued for ten years without interest, as currently repaid, or combined with the new money on identical terms.⁷⁹ These suggestions were endorsed by Clark, Robertson, Mackintosh and Mackenzie, who also wanted some indication of British import policy.⁸⁰ When these officials met Canadian ministers to prepare for the discussions, Louis St. Laurent, the Minister of Justice, was particularly determined to link aid for the United Kingdom to its Canadian investments.⁸¹ This

76. T236 630: Treasury Memorandum, 31 January 1946.

77. T236 630: Bridges, Minute, 2 January 1946; Dalton, Minute, 3 January 1946. Dalton also thought that it was appropriate that the roles of Eady and Keynes should be reversed.

78. DEA 154(s): LePan, Memorandum, 23 January 1946, enclosed with CHC(UK) to SSEA, A.40, 23 January 1946.

79. DF 763 304-6: Bryce, Memorandum, 30 January 1946, circulated to senior officials on 2 February 1946. Printed in D.M. Page, ed., *Documents on Canadian External Relations Volume 12, 1946* (Ottawa, 1977), pp. 1388-94.

80. DF 414 Bryce Working File (1946 Loan Negotiations UK): Note of meeting, 6 February 1946.

81. King Diary: 8 February 1946.

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parochial outlook from an influential member of the Cabinet did not augur well for the talks to follow.

On 11 February 1946, negotiations commenced in the East Block of the Parliament Buildings. The British delegation included Eady, Cobbold, Brand, MacDonald and officials from the High Commission, Treasury and Board of Trade. On the Canadian side, King was an observer, with Ilsley in the chair, accompanied by St. Laurent and Gardiner, assisted by Towers, Robertson, Clark, Mackenzie, Mackintosh, Coyne, Bryce and others. After formal welcomes, Eady spoke for nearly two hours. In what King recalled as "an exceptionally fine address" Eady emphasised that the main purpose of these negotiations, as of those before and after, was to restore convertibility of sterling, an essential aspect of world trade expansion. After Eady dealt with the British problems on current account and with the sterling balances, he referred to British payments with Canada. Already, there was a war debt of over \$1 billion. In 1946, the deficit would be \$800 million. For 1947, it might exceed \$500 million. To meet these needs, he requested at least \$1.25 billion from Canada. Since exports must redeem British debts and fund their imports, the annual balance of payments burden was important. Therefore, Eady asked for an interest-free loan, for commercial, not sentimental reasons. Trade had replaced "Justice."

In the afternoon, Ilsley frankly told the British that it would be difficult to defend a loan on Eady's terms, which would be attacked as too generous compared to the American agreement and given British investments in Canada. Moreover, the credit from the United States would determine Britain's ability to participate in international trade. If Congress rejected the American loan, Eady admitted, the United Kingdom would withdraw from Bretton Woods and the International Trade Organisation and resort to "the grimmest form of bilateralism." Accordingly, the British government was prepared to insert a clause in the Canadian pact for reconsideration if there was "so radical a change in world conditions," a provision which reinforced the linkage between the two agreements.⁸²

When discussion resumed the next day, St. Laurent "took up the running" about political opposition to an interest-free loan. Instead, St. Laurent proposed a credit for Britain "equal in amount to the value of her holdings of Canadian securities" which would cover British war debts in Canada (nearly \$1 billion) and perhaps \$500 million in new money. Proceeds from sales of their holdings would amortise this debt. The United Kingdom would pay interest on the securities to their holders, with the dollar income paid to Canada as interest on the obligation. In addition, Canada would accumulate sterling which might be employed for capital imports. After two years, this arrangement could be reviewed.

82. King Diary: 11 February 1946. T236/630: Note of meeting, 11 February 1946. DF/414/BWF (1946 Loan Negotiations UK): Note of meetings, 11-13 February 1946. An abbreviated version of this note, covering only the meetings of 11-12 February 1946, has been printed in *DCER*, XII, pp. 1396-1404. Note that in its report to the Treasury the delegation stated that it had requested \$1.5 billion, a figure contradicted by the Canadian minutes and the delegation's own note of this meeting. FO371/53060/UE1023: UKHC(C) to SSDA, No. 263 (BEECH 9), 13 February 1946.

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According to King, the British delegates were "quite taken aback at the suggestion." Never during the Washington talks, Brand noted, had there been a proposal to pledge securities against a credit. Eady strongly objected to paying interest on war debts, while reduction of their overseas income would frustrate British objectives.⁸³ Evidently Canadian officials shared the British disquiet over St. Laurent's approach. Robertson passed King a note suggesting a clarification that "Mr. St. Laurent's suggestions are not necessarily the Canadian reply to the U.K. request."⁸⁴ However, King would not disavow St. Laurent's scheme, since it was obviously a useful counterpoise to the British suggestion. Moreover, the attitude which it expressed would likely be reflected in Parliament, so that it must be answered.

Eady argued that a satisfactory solution must be both practicable and equitable. In effect, St. Laurent's proposal would leave an inadequate margin for current British requirements, once the old loan, the air training debt and other claims had been liquidated. That would benefit neither country. Canada's trade with the United Kingdom, which depended on triangular payments involving the sterling area, the United States and Canada, would suffer. Ratification of the American agreement by Congress, and the general approach to world economic problems previously championed by Canada and the United Kingdom, would also be jeopardised. Without a satisfactory outcome in North America, Cobbold threatened, the United Kingdom would resort to "complete Bilateralism, the matching of exports and imports by barter deals and the ruthless use of sterling balances as a bargaining weapon" not only in the sterling area but also with holders of sterling in Latin America and Europe.⁸⁵

King confided to his diary that "I was very deeply impressed by the statement of both gentlemen," particularly Cobbold's remarks. In his view, Canada's relations with the United Kingdom and the Commonwealth would be undermined, a point which he stressed after Cobbold spoke.⁸⁶ Perhaps as a result of this intervention, the British delegation reported that King had been "markedly friendly and sympathetic." Although St. Laurent's proposal was dropped, the delegates expected the issue of British investments to be revived. Meanwhile, they stood by their request for a loan without interest. As yet, the Canadians had not "shown their hand."⁸⁷

As Ilsley reported to the Cabinet, the British officials had proposed the conversion of war debt to an interest-free loan of \$1.2 billion. For transitional needs, they requested a credit of \$1.25 billion, also without interest, though he believed that they would accept American terms. On this occasion, as always, King stressed the political importance of aid "which would be understood by the Canadian people on the ground of direct and prompt benefit to Canada." In fact, Ilsley's advisers were examining a

83. King Diary: 12 February 1946. DF/414/BWF: Note of meetings, 11-13 February 1946. T236/630: Note of meeting, 12 February 1946.

84. King Diary: 12 February 1946. KP/J4/357, F3825: Robertson, Note, 12 February 1946.

85. DF 414/BWF: Note of meetings, 11-13 February 1946. T236/630: Note of meeting, 13 February 1946. DF/763,304-6: UK Delegation, Memorandum, 13 February 1946.

86. King Diary: 13 February 1946.

87. FO371-53060 UE1023: UKHC(C) to SSSA, No. 263 (BEECH 9), 13 February 1946.

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number of choices, "most of which involved further repatriation of Canadian securities held in the United Kingdom."⁸⁸

The Deputy Minister of Finance hoped that a "frank talk" would narrow the gap between St. Laurent's scheme and the British plan, both of which he rejected. However, neither of the two "compromises" advanced by Clark proved to be acceptable to Eady, "who objected strongly to any repatriation of securities" and to interest on the new loan. Instead, the British contemplated annual service of \$40 million on all obligations, with no liability for air training. These differences surprised Clark, who emphasised the political impossibility of an interest-free credit "or a failure to do anything at all with the securities."⁸⁹ Clearly, this conversation did not accomplish Clark's purpose.

On 15 February 1946, the British delegates formally specified the settlement which they hoped to achieve, including a loan of \$1.25 billion without interest. The 1942 loan would be undisturbed, with the balance free of interest and amortised by net proceeds of sales of British securities. All other liabilities as of 28 February 1946, including the air training debt, would be cancelled. Despite Clark's insistence that an interest-free credit was a non-starter, the British did not move from their entrenched position.⁹⁰

Unfortunately, when Eady attempted to justify this posture in writing, he completely misjudged his readers. Ilsley had asked whether the British could offer "any immediate benefit to Canadian manufacturing, producing and commercial interests" and for any indication that other creditors would emulate Canada. Eady suggested that the plan discussed with Mackenzie might serve the first purpose — though obviously that was too little, too late. Secondly, a statement by Dalton to the House of Commons would demonstrate the importance of the settlement for trade with Canada and as a pattern for the sterling arrangements. Critics from Quebec were unlikely to be appeased by that affirmation. The British paper suggested that, if the American terms were applied to the new money, "a great constructive opportunity will be missed." The British recognised that it would be difficult to defend their recommendation.

Yet we earnestly beg you and your colleagues to consider again whether a settlement on these lines could not be presented to Canadian opinion as a constructive and far-sighted act of leadership and enlightened self-interest for Canada, and would not in fact be so envisaged in Canada and indeed in other parts of the world.⁹¹

This appeal had an unfortunate effect on King, who read it on Sunday. What infuriated him was that there was no practical recognition of Ottawa's political

88. Cabinet Conclusions: 13 February 1946. King Diary: 13 February 1946.

89. DF/763/304-6: (Bryce), Memorandum, 14 February 1946; Clark, Note of conversation with Eady, 14 February 1946. FO371/53060/UE1023: UKHC(C) to SSDA, No. 285 (BEECH 15), 16 February 1946.

90. FO371/53060/UE1023: UKHC(C) to SSDA, No. 284 (BEECH 15), 16 February 1946. DF/414/BWF: (Bryce), Memorandum, n.d. T236/630: Waley, Note, 18 February 1946; Bridges, Minute, 19 February 1946; Dalton, Minute, 19 February 1946.

91. PCO Papers/ 15/D-13-4: Eady to Ilsley, 16 February 1946, enclosing *aide-mémoire*. Printed in *DCER*, XII, pp. 1409-11.

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difficulty. "There might have been no negotiations at all," he complained, "but much better a straight request, than to have to yield to what has thus far been presented, with great force it is true, but with almost exclusive benefits to the British."⁹² What King expected in return is unclear, but he obviously was not prepared to support a generous measure without some reciprocity. Nor was he swayed by Graham Towers' appeal to ignore "uninformed criticism, particularly from a certain area." As King told Towers, the British gave no "consideration" for what amounted to a "gift." King suspected that Towers was influenced unduly by the "large financial banking world" rather than by Canada's concerns.⁹³

Later Ilsley informed an ill-attended meeting of the Cabinet that the two sides were "further apart than ever." King expressed his "deep indignation" at Eady's memorandum, which made only a passing reference to examination of Canadian proposals. What particularly incensed him was the implication that a statement by Dalton in Westminster would appease Canadian critics:

I said they must take us for a lot of infants and children to present a document of that kind to a government; that my colleagues knew I had been very deeply impressed by statements made but I felt indignant when we received a document which implied that we were gullible and, as I saw it, not in the nature of a negotiation, but a demand for something for nothing and the equivalent of and going the length of even stating that if this were not done we would be responsible for failure in the case of the U.S. loan and in the case of negotiations with other creditor nations. I did not use the expression but it kept coming into my mind of there being a threat of blackmail in the whole attitude.

Without the full Cabinet, especially St. Laurent, King would not discuss a final agreement. He reflected that his own attitude had shifted from approval of "a loan at one per cent with certain other conditions and understandings" to strict observance of the American precedent. To King, the sole justification for the loan was to secure a market for Canadian goods.⁹⁴ At dinner the following evening, King warned Eady, Brand and Cobbold that their attitude of "take it or leave it" was unacceptable.⁹⁵

On 20 February, Ilsley and St. Laurent, backed by their financial advisers, again met with the British delegation. The Cabinet, they declared, would not approve an interest-free loan. However, they did not state whether the American terms would be applied. If so, the British contended that all of their war debts and obligations to Canada until the end of February should be cancelled. This would make a clear distinction between unproductive war debt and the new money. However St. Laurent argued that, unlike the air training liability, the 1942 loan had been a factor in the reckoning for the Billion Dollar Gift and mutual aid. St. Laurent bluntly remarked that Canada could not wipe the slate clean when nobody else was doing so. The point

92. King Diary: 17 February 1946.

93. Towers Papers, Towers, Summary of remarks, 22 February 1946. King Diary: 18 February 1946; 22 February 1946.

94. King Diary: 18 February 1946. Only King, Ilsley, Gardiner and Abbott were present, with Clark. No conclusion on the financial question is recorded in the Cabinet records.

95. King Diary: 19 February 1946.

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had been reached, Ilsley noted, when Ottawa should make an offer for submission to London.⁹⁶

Accordingly, Ilsley presented to the Cabinet a "Possible Basis for Financial Agreement with the United Kingdom" which, he declared, was not subject to later amendment. Instead it represented "the extent to which this government would be prepared to go in meeting the problems which have been outlined by the United Kingdom." Nonetheless, he was unwilling to "close the door" on discussions, if the British rejected it. Under this proposal, \$1.25 billion would be lent on the American terms; the 1942 loan would be amortised as before, without interest, while the air training liabilities would be written off. However, other claims would not be cancelled, since some post-war purchases were involved. Rather, these would be paid out of the proceeds of the new loan, or possibly from additional funds. Finally, the only "non-financial considerations" in return "should be a broad most favoured nation clause, reciprocal in form and applying to all exchange and trade policies and measures."⁹⁷ While this proposal did not meet the British requests, either for credit or obligations, it was a further advance from previous Canadian positions, since it cancelled the air training debt and did not regulate payment for the 1942 loan. The terms of the loan corresponded to the American agreement but its amount reflected Canada's greater stake in the British market.

Ilsley found himself alone in the Cabinet in his attitude to war debt. St. Laurent would not dispense with interest on the 1942 loan, though it could be foregone for five years, then reassessed. Nor would he write off the air training debt, whose interest could be paid in sterling. King suggested that the Canadians should simply "do what the Americans had done," by which he meant that the old obligations should be carried forward for later review. King was unwilling to risk a defeat in Parliament. With a slim majority and ineffective organisation in the House, his "first duty" was to continue in office.⁹⁸ Consistently in these deliberations, King exaggerated his parliamentary problems. The disposition of the Opposition ensured a safe passage for a generous measure. However King was more concerned about the degree of support from his own caucus, particularly its Quebec members, than a simple majority in the House of Commons for this legislation.

After a lengthy discussion, the Cabinet agreed on elements which Ilsley reluctantly presented to the British delegation. There would be a new loan of \$1.25 billion, on American terms. Until 1951, the 1942 loan arrangements would continue as before. While the air training liability would not be cancelled, it would be converted to a sterling debt, which would be settled on terms comparable to those granted by other sterling creditors. Eady reported to Bridges that "Ilsley was obviously unhappy" in presenting this package. For his part, Eady had warned that Whitehall would reject it.⁹⁹

96. DF 414 BWF: Handwritten notes of meetings, 20 February 1946 (no typescript exists for this meeting). T236-40: UKHC(C) to SSDA, No. 308 (BEECH 21), 21 February 1946.

97. PCO Papers 15 D-13-4: Department of Finance, Memorandum, 21 February 1946. Cabinet Conclusions: 21 February 1946.

98. King Diary: 21 February 1946.

99. Cabinet Conclusions: 21 February 1946. FO371/53060/UE1023: UKHC(C) to SSDA, No. 325 (BEECH 26), 22 February 1946 (Eady to Bridges).

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On the following day, a sombre group of British officials filed into Ilsley's office to discuss the Cabinet's plan. King expected this meeting to be a "trying affair." In his view, political considerations were paramount. King was haunted by the spectre of the Laurier government's defeat in 1911 on the question of reciprocity with the United States. In his political lexicon, this symbolised the difficulty in explaining a financial question to Parliament and public. King's doubts had been reinforced by recent experience with a tariff item in Ilsley's budget and with the handling of succession duties at the Dominion-Provincial conference. In each instance, what he regarded as a sound economic measure had been defeated for political reasons.¹⁰⁰

Eady took much the same line as he had previously. The British objected in principle to any war debt, but especially to any link forged between the air training debt and sterling arrangements. As King observed, Eady covered familiar ground "becoming increasingly threatening in his attitude and just saving himself with a word here and there from having the door absolutely closed." There was no chance that this offer would be accepted. In fact, Eady had not cabled it. "Frankly," Eady was quoted, he "wouldn't feel justified in taking the risk of a telegram." Instead, Cobbold was flying back to London, where he would report directly to Dalton.

Eady's claim that the proposed treatment by Canada was "even harsher than the U.S." was taken up with vigour by St. Laurent, who had previously been silent. He cited the continuation of the Reconstruction Finance Corporation Loan with interest as an example of how the United States treated war debt. Predictably King and his colleagues stressed their political difficulty. The offer was as far as the Cabinet felt it could confidently go. Melodramatically King claimed that he would risk defeat in the House, but only for a just cause. Unfortunately Eady repeated that he would not want British ministers to have to apologise to Westminster for this agreement. For King, this was a red flag. "I felt incensed," King recorded, "at his talking of an apology in reference to what Canada was ready to do, on top of all we had done."

Ilsley attempted to salvage something from this wreckage. As he remarked, the proposal had only been made the day before. The British delegation had taken "strong and earnest exception to it." However, care must be taken to avoid a deadlock. On Monday, Ilsley would revive the question in the Cabinet. After that meeting, a definite offer would be made, which could be cabled to London, where Cobbold would brief the British Cabinet.¹⁰¹ After a tense talk with King, Malcolm MacDonald decided to travel to London to report to the Cabinet and to assist in evaluation of the Canadian offer.¹⁰² At Ilsley's request, Eady forwarded a memorandum on "Canada's Interest in an Agreement with U.K.," which stressed the importance of the British and sterling area markets, the convertibility of sterling receipts, the stability of sterling in relation to Canada's markets in Europe and the British contributions to international economic

100. King Diary: 22 February 1946.

101. DF; 414; BWF: Handwritten notes of meeting, 22 February 1946. King Diary: 22 February 1946. Cobbold had intended to leave early right from the start, though his departure at this juncture was convenient.

102. King Diary: 23 February 1946.

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expansion. Thus, war debts would burden mutual interests in the transition and after.¹⁰³

Before the Cabinet met, a number of options, most of which included cancellation of the air training debt, were hurriedly considered by the Canadians, often in consultation with their visitors. One alternative, identified as the "Fifth Option," called for an interest-free loan which would mature in 1986 rather than 2002, with the annual services rising gradually over its term. The old loan would be free of interest but repaid over five years from sales of securities or accumulation of sterling. The other principal choice presented to the Cabinet was an amended version of the "First Option" under which the credit would be on American terms and conditions, while the old loan would be continued unaltered for five years, then reviewed.¹⁰⁴

Ilsley informed his colleagues that the British delegation would recommend refusal of their previous offer. Thus, the Cabinet could either risk failure of the negotiations or improve its bid. Ilsley was sure "that we will not dare take the first course" which would harm Canada's trade, endanger the American loan, and damage the reputation of the government and the country. Rather than amend the scheme later, as Ilsley expected would be necessary, it would be "far better to modify it now." Therefore, Ilsley recommended the "Fifth Option." However King, as wary as ever of the political implications, suspected that it was too complicated. Instead he suggested a simple alternative: everything would be reviewed after five years, while the new loan would be offered at 1 per cent. "At one moment," he recalled, "we came to the conclusion that that was the wisest course to pursue." But St. Laurent objected that it would be hard to defend a loan at 1 per cent which cost the government nearly 3 per cent to raise. Finally the Cabinet endorsed a loan of \$1.25 billion, repayable beginning in five years over fifty years at 2 per cent interest, continuation of the 1942 loan on its current terms and cancellation of the air training debt, the "First Option."¹⁰⁵

After an oral report by Clark, Eady cabled this plan to London, urging a quick settlement before Ilsley and his subordinates left for Bretton Woods. Despite Eady's advice, endorsed by Dalton, the Financial and Commercial Policy Committee of the British Cabinet made one last attempt to amend the proposal. With strong backing from Sir Stafford Cripps, Cobbold, who should have known better, suggested a departure from the American precedent: the 1942 loan would be included in a credit of \$1.75 billion at 1 per cent. Dalton was asked to instruct Eady to make this counter-offer. Ultimately, if this failed, the Canadian offer would be recommended to the Cabinet, on the understanding that the 1942 loan would be reviewed after five years and that claims were settled for a maximum of \$150 million.¹⁰⁶

103. T236/631: Eady to Ilsley, 24 February 1946, with enclosure.

104. PCO Papers/15/D-13-4: "Fifth Option," 25 February 1946; "First Option," 25 February 1946. See also drafts on DF/763/304-6.

105. DF/763/304-6: (Ilsley), "Present stage of negotiations with British and suggestions as to course which should now be taken," (25 February 1946). King Diary: 25 February 1946. Cabinet Conclusions: 25 February 1946.

106. PREM 8; 196: UKHC(C) to SSDA, No. 348 (BEECH 30), 26 February 1946; SSDA to UKHC(C), No. 345 (MAPLE 24), 27 February 1946 (Dalton to Eady); SSDA to UKHC(C), No. 346 (MAPLE 25), 27 February 1946; SSDA to UKHC(C), No. 347 (MAPLE 26), 27 February 1946. Cab 78/37: GEN.89/8th Mtg: 26 February 1946.

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When Eady disclosed Cobbold's scheme informally to Ilsley and Clark, their reactions were "extremely unfavourable." As a result, Eady withheld the formal counter-proposal and he requested authority to withdraw it.¹⁰⁷ On Dalton's advice, the British Cabinet approved Ottawa's plan of 28 February 1946.¹⁰⁸ According to Eady, Ilsley was "plainly relieved at the tone of reply" which Eady confirmed in an *aide-mémoire*.¹⁰⁹ On 2 March 1946, the Canadian Cabinet approved the agreement, though there was a subsequent delay while a clause on trade and exchange was drafted.¹¹⁰ At the last moment, the Canadian government sought and received an understanding on the effects of a failure by Congress to ratify the American financial accord.¹¹¹ Finally on 6 March 1946 the pact was signed in Ottawa by Ilsley and MacDonald.¹¹² In an exchange of letters, Ilsley and Dalton agreed that certain clauses would be suspended and the agreement reviewed if the American loan was not approved.¹¹³ Given the close relationship between the Ottawa and Washington negotiations, that stipulation was particularly appropriate.

As we have seen, King and St. Laurent stressed political factors in the reckoning of what Canada could afford to lend. In the Liberal caucus, King linked the loan to British influence for stability in an uncertain post-war world.¹¹⁴ In Parliament, there was no appeal to imperial sentiment, "only a grim appreciation of Canada's desperate need for markets."¹¹⁵ During the deliberations King had frequently referred to opposition likely in the House of Commons; yet the reconstruction loan passed third on 7 May 1946 with a majority of 161. Privately, King attributed this satisfactory conclusion to St. Laurent, who, after the agreement, became a persuasive advocate of reasonable treatment for the United Kingdom, despite attacks by the nationalist press in Quebec.¹¹⁶ Nonetheless, it would also appear that King had been overly cautious.

During the financial talks, the "token import" concession, originally intended as a political filip, faded into the background, though Mackenzie continued to seek its benefits. After some prevarication, the British government endorsed an early announcement of the concession, despite Dalton's reservations, but its implementation failed to fulfil its promise, Administrative delays and protectionist biases effectively

107. PREM 8/196: UKHC(C) to SSDA, No. 367 (BEECH 33), 27 February 1946 (Eady to Bridges).

108. CAB 129/7: CP(46)84. Cab 128/5: CM19(46)4, 28 February 1946. T236/631: SSDA to UKHC(C), No. 358 (MAPLE 30), 28 February 1946 (Dalton to Eady).

109. PCO Papers/15/D-13-4: UK Delegation, *Aide-Mémoire*, (28 February 1946). T236/631: UKHC(C) to SSDA, No. 384 (BEECH 37), 1 March 1946 (Eady to Bridges).

110. Cabinet Conclusions: 2 March 1946. King Diary: 2 March 1946.

111. PREM 8/196: UKHC(C) to SSDA, No. 420 (BEECH 48), 5 March 1946.

112. Cabinet Conclusions: 6 March 1946. King Diary: 6 March 1946. Canada, *Treaty Series*, 1946, Nos. 9/10.

113. PCO Papers/15/D-13-4: Ilsley to Dalton, 6 March 1946; Dalton to Ilsley, 6 March 1946.

114. King Diary: 20 March 1946.

115. Robert Bothwell and John English, "Canadian Trade Policy in the Age of American Dominance and British Decline, 1943-1947", *The Canadian Review of American Studies*, VIII, 1(Spring 1977), p. 61.

116. KP/J1/399: King to Brand, 17 May 1946. For a review of press reaction in Quebec see DO35/1220 WT665/119: Holmes to Addison, No. 158, 6 April 1946.

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limited its cost and its utility.¹¹⁷ However, Canada and the United Kingdom did co-operate in a separate bilateral agreement on wheat, concluded in June 1946. As Bothwell and English have noted, that was a further illustration of Canada's consistent concern for stability in its overseas trade, reflected most vividly in the reconstruction loan.¹¹⁸ Throughout these negotiations, Canada was determined to secure its place in the British market by whatever means were available.

The conclusion of the financial accord of March 1946 was an appropriate sequel to Canada's economic assistance to Britain in the Second World War, not only because it resolved the question of war debt, but also because it dealt with the financial consequences of that conflict in a manner consistent with the development of Canadian policy in wartime. The war had enhanced Canada's stake in the British market. Moreover, the emphasis on trade in its reconstruction policy made it imperative that Canada assist British recovery. As before, despite its adherence to the multilateral ideal, Ottawa sought bilateral concessions, notably "token imports."

Predictably, the settlement in Washington dictated the outcome in Ottawa. Once "Justice" was denied and "Starvation Corner" was ruled out, the path led to "Temptation." Britain needed substantial funds immediately from the United States, which was prepared to use its economic power to direct British policy away from bilateralism. The level and terms of its aid were determined by political rather than economic factors. For Canada, the existence of the Anglo-American agreement obviated the need to exact harsh conditions for its own assistance. While the Canadian pact followed the American pattern, a close examination of the deliberations in Ottawa has demonstrated that they were neither straightforward nor uneventful.

The absence of any specific inducement for a better result, after Dalton's decision to delay any breach of British import controls, was an important determinant of Ottawa's approach to finance of British requirements in the transition. As well, the British delegation ignored warnings that an interest-free loan was impossible. For their part, Canadian policy-makers often adopted a parsimonious attitude to war debts, cast covetous eyes on British investments and displayed a parochial outlook. Political influences, personified by King and St. Laurent, were decisive. Nonetheless, the amount of the credit was generous, proportionately far greater than the American sum. Taken together, these loans provided \$5 billion for British needs in Stage III, a figure which Keynes had once regarded as sufficient. Perhaps Canada's contribution reflected optimism, or simply desperation. For Canada, the alternatives were unattractive: trade reductions and economic dislocation or an even closer relationship with the United States.

117. BT11/3302: Mackenzie to Helmore, 9 September 1946; Helmore to Mackenzie, 31 October 1946.

118. Bothwell and English, "Canadian Trade Policy", p. 60.