



## FREE TRADE WITH CANADA

**I**F EVER two countries were intended to trade together in peace and prosperity without any hindrance whatever, they are Canada and the United States. No neutral barrier separates us, and not a single fortress or warship. We have been garrisoning a Newfoundland harbor and have built and used a string of airfields on Canadian soil, while Canadian uniforms have been familiar sights in our streets and airdromes. We are partners in a Joint Defense Board which is permanent; indeed, the whole North American defense problem will hereafter include Canada and the United States as one. Abroad the sons of both countries have died together in closest comradeship before the joint enemy. Not a single untoward incident, no friction, no differences of opinion have marked this co-operation; it has been a partnership between two nations unparalleled in its completeness and mutual trust.

Following the establishment at Ogdensburg in August, 1940, of the permanent Joint Defense Board, the Prime Minister of Canada, Mackenzie King, and President Roosevelt issued a declaration at Hyde Park in 1941 on the mobilization of the economic resources of the two countries in which it was agreed "as a general principle" that "each country should provide the other with the defense articles which it is best able to produce, and, above all produce quickly, and that the production program should be coordinated to this end." In the next year, on November 30, 1942, Secretary of State Cordell Hull and the Canadian

Minister to Washington, Leighton McCarthy, exchanged two notes which agreed that "postwar settlements must be such as to promote mutually advantageous economic relations" between the two countries. For "the betterment of worldwide economic relations," they undertook for their governments to "co-operate in formulating a program of agreed action, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment and the exchange and the consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers."

If we can do all of this in wartime why should there not be the fullest and freest co-operation and exchange of goods and services between the two countries in time of peace? Can this only take place when the sons of the two nations are being killed abroad? This question is the more important because, as Prime Minister King has pointed out, "the trade between Canada and the United States was based upon a community of interest which made North America two nations, but in trade, one community." He stressed the fact that the total trade between the two countries before the Second World War was "greater than the total trade between any other two countries on the face of the earth." He could have noted that Canada has now become the third greatest exporting nation in the world. It is not necessary to add anything to this to prove how important to the welfare of the United States is this joint traffic over its northern boundary.

How the war expanded that trade appears from the fact that whereas Canada purchased \$264,000,000 of American products in 1932, that figure jumped to \$1,424,000,000 in

1943, and was held at \$1,060,000,000 in the peace year of 1946. In 1932 the United States paid \$159,000,000 to Canada for products purchased, but in 1943, excluding all gold purchases, it paid no less than \$1,149,000,000 to her for the goods it needed and for the minerals required by our war effort. It is true, as the Canadian Minister of Trade and Commerce, James A. MacKinnon, has said, that 80 per cent of the war time Canadian-American trade was temporary and abnormal business. Nonetheless, the opportunity is ripe for maintaining a larger volume of peacetime trade than ever before. The United States Congress has just recognized this by unilaterally abolishing for three years the 4-cent a pound duty on all copper ore entering the United States from Canada (also from the Belgian Congo, Mexico and Chile; it asks nothing in return from those four countries). Again, the war trade has shown us how the two countries would profit if the semimanufactured products of Canadian metal and power were admitted free of duty into the United States and the finished products went into Canada just as freely. Even before the war this was done with such metals as aluminum and nickel and with certain chemicals but it was not possible to do so with copper products because of the 4-cent a pound duty. It was done to a certain extent with asbestos. The Canadian Government is now working industriously for free trade in agricultural machines, which is but one example of the way business between the two countries could be built up to replace the abnormal war traffic. In addition, American corporations have already scheduled fully \$200,000,000 for investment in Canada, chiefly in Ontario, since the close of the war, and much more will doubtless be put to work in Canada before long. Canada has also reduced to 1½ per cent, as of July 5, 1946, the duty of 11 per cent placed upon importers receiving pay-

ments from the United States for purposes of exchange control.

The wartime agreements between the two countries greatly reduced the restrictive effects of their respective tariffs. As the Canadian Minister of Finance, James Ilesley, put it in the Canadian House of Commons on June 26, 1944: "For the present the [Canadian] tariff is without any great influence on the scope or direction of external trade." He explained that it had been supplanted under the stress of the war because of the "scarcity of supplies, agreed allocations, bulk purchasing, import and export permits, and import subsidies—these are the instruments which determine, for the time being, the extent and pattern of [our] world trade." Now the most important thing to note is that neither the Congress nor the Ottawa Parliament voted to eliminate the tariffs. They were merely brushed aside by the two governments on the ground that nothing must interfere with their war co-operation. Just what the arrangements were has not been easy to ascertain. There was supposed to be much entering of debits and credits on each nation's books to be ironed out after the war—John MacCormac says that there were bookkeeping transactions between one branch of the government and another.

During the war both countries liberalized their customs administrative procedures in order to facilitate trade and abandoned their usually restrictive attitudes. Moreover, Canada suspended the application of its antidumping duties. Goods presented at customs houses have in the past too often been received, especially upon the American border, as unwanted things, to be handled, not as speedily as possible, but as if with the desire to delay their entry by every means, by hook or by crook. There have been United States marking regulations which have caused infinite trouble and

the extraordinarily elaborate and difficult customs documents to be signed by the unfortunate importers and exporters have apparently been planned as if for the express purpose of further making trade difficult. The "invisible tariffs" have been as vexatious in the exchange of goods between these two countries as anywhere else.

Why should any sane person, either in the United States or in Canada, think of putting on again such odious shackles now that the war is over? Mr. King has called for the progressive annual reduction of all tariffs by all nations, and his parliamentary assistant, Brooke Claxton, has voiced the hope that the United States and Canada will not wait for any international agreement, but will go "further than almost any nations have ever gone or today would be prepared to go" in eliminating tariffs, and in permitting trade to flow unhindered across their borders. All the Canadian political parties are on record as calling for freer trade, more trade, and the closest economic ties with the United States. Moreover, in February, 1944, a Gallup poll revealed that 70 per cent of the Canadians were in favor of immediate free trade between the two countries. This should surprise no one for the aid which the United States has given to Canada has helped to open up Canadian resources to an amazing extent, as witness the "Canol" oil undertaking and even the dubious Alaskan Highway. No national pride, no suspicion, no jockeying for advantage, no effort to profit by any emergency, and no selfish interests have intervened.

In view of all this it is hardly surprising that Mackenzie King has also said that "all the available evidence of the state of public opinion in Canada points to the desire of our people to see even better trade relations with the United States, and better relations with the whole world. Canadians of all parties and all classes are coming to see that in the long run we have to import if we are going to export. Our

people realize that two-way trade can raise the level of consumption and the standard of living in our country. We recognize that accepting the exports of other lands is the only way to find secure markets for our own surplus productive power. Such a policy is in our own national interest. We believe it is no less in the interest of every other nation."

It would be difficult to find a clearer instance of the blighting effects of nationalism upon the trade relations of two countries than is to be found in this Canadian-American situation. Here again it is solely the difference in the national flag which for generations has impelled the leaders of both countries each to regard the other as a dangerous competitor and to engage in tariff wars. Were Canada to join this country, the most hidebound protectionist in Washington would, of course, never think of demanding a tariff between the two sections of the United States. As this is not the case, we continue to consider the Canadians primarily as foreigners so that, despite our fundamental kinship with them in ideals and language, we have done our best to keep the two peoples apart by putting just as many hindrances as possible in the way of our joint trade. At times this protection rivalry has given rise to such bitter feeling as to threaten most serious results. For example, Rudyard Kipling declared on the day when the Canadians rejected the reciprocity treaty with the United States in 1911, "it is her own soul that Canada risks today."<sup>1</sup> The bitterest antagonists of the treaty in Canada called for "no truck or trade with the Yankees"—strange reading in the light of the complete comradeship of today. These words were, of

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<sup>1</sup>Mr. Kipling deliberately overlooked the Reciprocity Treaty which existed between the United States and Canada in the year 1854 as a result of which the total trade between the two countries rose from \$35,000,000 to \$57,000,000 in 1856. It expired in 1866, apparently leaving Canada's soul untainted.

course, echoed on our side of the boundary by politicians more eager to get votes than to bring about tariff union. The treaty would have had a much better chance of acceptance in Canada if it had not been for statements made by William J. Bryan, Champ Clark and others. The annexation bogey was also trotted out and played its part in the defeat of the Laurier reciprocity proposal.

It is true, as Dr. F. Cyril James, the principal of McGill University, has stated, that it is unrealistic to build a permanent American-Canadian pact purely on wartime emotion unless it is also based upon sound economic policy, including uniform currency and an agreement as to proper economic relationships with the rest of the world. What emotion creates, emotion can speedily destroy. If there were to be any repetition of the jealousy and ill will between the two countries which followed on the close of the First World War, it might be harder than ever to obtain either nominal tariffs or free trade. But this time we have before us the fact that we have been doing the greatest joint trade ever recorded, and practically without tariffs; that the United Nations are seeking a general international economic understanding as well as postwar monetary co-operation. Similarly, the joint UNRRA action to bring about a proper food distribution throughout the world in peace as well as in war, was another most promising indication that the nations are at last coming to some sanity in their economic relationships.

What are the concrete obstacles in the way of American agreement to tariff abolition so far as Canada is concerned, aside from the ingrained protective character of our economic policies? Primarily, there is the startling fact that, as one looks at Canada, one discovers that American manufacturers have sought to have their protection cake and to eat it, too. By 1941, they had invested \$4,000,000,000 in

Canada, three times as much as in any other country, and as a result they then controlled or owned outright one-fourth of all the manufacturing in Canada. All the great American companies, like General Electric, Westinghouse, General Motors, Ford, Bell Telephone, the Aluminum Company of America, and numerous smaller ones are represented by branch plants on the other side of the boundary. Henry Ford once said to the writer of this book: "If the tariff bothers you in any country, well, you just go into it and build your own factory and there you are. I have factories and assembly plants in Canada, England, Germany, Spain and many other countries. Their tariffs and quotas do not hurt me there." Thus he was quite willing that our tariffs should hurt the foreigner, but was wholly unready to swallow the tariff medicine when it was offered by foreigners.

No less than twelve hundred American manufacturers have, however, adopted the Ford philosophy and established Canadian branches. As far back as 1934 there were 690 firms, with a capitalization of \$545,692,000 employed in straight manufacturing, while 115 made the pulp and paper our printing industry has relied upon because of the exhaustion of our own pulpwood forests. There were 49 firms engaged in mining and smelting, while 81 other American enterprises were in the category of public utilities. By 1938 American-owned companies made 82 per cent of all the trucks and automobiles manufactured in Canada, 68 per cent of the electrical apparatus, 44 per cent of nonmetallic mineral manufactures, 41 per cent of chemicals, 42 per cent of agricultural, industrial and office machinery, and 40 per cent of miscellaneous manufactures. As stated above, these figures are being much altered by the hundreds of millions of dollars now being invested in Canada by American concerns.

It is a curious fact that these American businesses in Can-



ada profit by the imperial preference system, first adopted by Canada in 1897 and extended and increased several times between then and 1932, for the express purpose, among others, of enabling Canada to find additional trade outlets since she was so considerably excluded from the American market. It was also due, of course, to the desire of other British possessions, like the British West Indies, to obtain Canadian markets for their products. It was not so much a purpose to shut out American and other foreign goods, some people insist, as a wish to obtain increased trade with other nations. But the upshot was that the Americans in Canada have been benefiting by this very device to increase trade between the Dominions and other parts of the Empire!

Another barrier to free trade between the two countries will undoubtedly be some American farmers, for Canada until the war has been largely an agrarian country and our farmers, particularly those along the border, have been very much afraid of Canadian competition—again something that they would not be concerned with if both countries were under the same flag. Here is where American leadership will have to play its part and not only set forth the economic truth, but tell of the damage done to the American farmers by tariffs, and point the way to co-operation under the proposed new international arrangements for provisioning the world and disposing of the surpluses both of our countries and the other great agrarian nations. Certainly our farmers need be in no fear of competition from their Canadian brothers when there is not enough food in the world. The demand for all that they can produce is now limited only by the ability of the starving peoples of Europe and Asia to pay for their immediate needs and for the building up of the normal reserve stocks of peacetime.

It will be a misfortune, indeed, if the present golden opportunity for bringing the two countries together were to be

lost. If the United States refuses to respond, then Canada will perforce be pushed into closer and closer relations with England and with other countries, to our hurt. As Mr. Ilsley has said, for Canada "world trade is the very bloodstream" and it will not be deterred by any American shortsightedness from getting that trade elsewhere if it cannot do all the business it desires with its immediate neighbor. Meanwhile the Canadian Government has given further proof of its desire to co-operate with us. Thus, in June, 1944, Parliament rescinded the War Exchange Conservation Act which had set up special wartime prohibitions or restrictions on the import of nonessential merchandise from hard-currency countries. The only restrictions now are those pertaining to the rationing of scarce materials, and these are arrived at usually by conferences between representatives of the two countries. Again, the 10 per cent War Exchange Tax voted in 1940 as an additional source of revenue, and in order to restrict purchases from hard-currency countries, was repealed in its entirety as of October 13, 1945, a clear indication that Canada did not intend to hold to wartime restrictions in trade matters a minute longer than absolutely necessary. Hence, in discussing tariff relations between the two countries in the future, we need only think of normal rates and regulations.

In the spring of 1945 the Canadian Government announced its postwar policies as follows: It will do its utmost to build up the exporting capacity of other nations so that Canada may ultimately receive payment in imports for its exports and it will work hard to obtain from other countries "zealous collaboration on broad lines for the reciprocal reduction and removal of trade barriers." It will aim to export \$1,750,000,000 worth of goods annually—50 per cent decrease from its wartime top mark, but a 60 per cent increase in dollar value above the export level maintained before the war. It

is especially noteworthy that it looks to this international interchange of goods as "the greatest dynamic force influencing the level of national income and employment in Canada." To further it the Government will reduce certain taxes and will follow a fiscal policy planned to stimulate private capital investments.<sup>2</sup> This was reaffirmed by James A. MacKinnon, Minister of Trade and Commerce, before the Canadian Chamber of Commerce in London, when he declared, on January 22, 1946, that the present Canadian Government is now promoting imports as its predecessors sought to increase exports.

This policy is strongly upheld by Canadian industrialists like R. C. Stanley, Chairman of the International Nickel Company, Ltd., who has urged the reducing of exchange restrictions, and eliminating unnecessary tariffs and governmental trade barriers, while the Canadian Importers and Traders Association has issued a brief in which it declares that "one-way trade and bilateral agreements which brought the world to the present cataclysm *must* be a thing of the past," and demands that Canada take the lead in removing "as rapidly as possible" all impediments to trade between her and every nation desiring to do business with her.

It is too bad that business men's associations of this importance on both sides of the border should have been so slow in taking the advice of two outstanding American industrialists who can certainly not be charged with having been idealists or mere theoreticians. One was James J. Hill, President and builder of the Great Northern Railway which did so much to open up traffic between the United States and the western Canadian provinces. Speaking in New York on November 19, 1909, Mr. Hill made the following frank appeal for freer and eventually free trade with Canada:

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<sup>2</sup>*Monthly Trade Review* of the Bank of Montreal, May, 1945.

That commerce must eventually move unrestrained between the United States and Canada is self-evident. Why not strike off the shackles now and let it move freely instead of paying the heavy penalty of delay? I do not believe that there is one valid argument in favor of the system that makes our international boundary line bristle with customs houses and forces every dollar's worth of trade between them to show its passport and pay its entrance fee. I do not believe that there is one sound objection on the side of Canada or the United States to fuller and freer intercourse.

Andrew Carnegie, the great steel manufacturer, came out for free trade in iron and steel and insisted that tariff barriers could be levelled in every direction to the point of merely raising revenue for the Government and not as protection. He was especially interested in the Canadian situation because of his lifelong advocacy of peace which led him constantly to dwell upon the undefended boundary between the two countries and to urge tariff freedom between them.

Americans must realize that they are no longer dealing with a small and insignificant Dominion in Canada, but that, as Mackenzie King has put it, "in the course of the present war we have seen Canada emerge from nationhood into a position generally recognized as that of a world power." It has certainly achieved enough since 1939, and given us such outstanding aid as to be able to demand the fullest equality of consideration. The Dominion did not even accept Lend-Lease aid from us, but has paid us for all war materials or manufactured articles imported for the use of its military or naval forces, while raw materials bought from us by Canada for use in making armaments for England were debited to England under Lend-Lease. In all our war relationships Canada's aim has been the mutual benefit of both countries, without any selfish purpose or any objective that

it was not willing to share with us or any other country. If our neighbor is now met with similar evidences of American good will, and the desire to make our post-war relations as close as those between the individual American States, not only will the two countries profit but the whole world.