

TRADE WARS

A Brief History of Can-Am Free Trade: A 140-Year Quest.

By Earle Gray

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Spying, bribing, champagne and gunboat diplomacy helped launch the first Canada-U.S. free trade deal 140 years ago.

Canadians have argued longer and louder over free trade with the United States than any big issue in our history other than the relationship of our French- and English-speaking peoples. After more than 140 years, the issue climaxed in the passionate and bitter 1988 national election and the Canada-U.S. Free Trade Agreement. The story leading to that climax is filled with contradictions, ironies, and paradoxes. It is a story that embraces smuggling and a double-dealing spy, politicians that shift with the wind, and business moguls.

The first, limited Canada-U.S. free trade agreement lasted only 12 years. After it was abrogated by the Americans, Canada spent nearly a century seeking a new free trade deal. Twice the Americans agreed, and twice Canadians turned it down. Through all but the last few years of this period, it was the Liberals who preached (but didn't always practice) free trade, while Conservatives, for the most part, and especially big business, were vociferously opposed. In the end, it was the Conservative and big business that pushed through the free trade agreement through, over staunch Liberal opposition.

With the later admission of Mexico to form the North American Free Trade Agreement and pacts with other countries, the issue has moved onto a larger stage in the era of globalization. But the age-old trade arguments remain basically the

same; free trade with the Americans seems less free than advertised; friction and irritants remain, and reports of growing pressure for trade protection are seen as a threat at a time of economic trouble.

The long march of events leading to the 1988 agreement is told in this brief history, excerpted from Free Trade, Free Canada. The story is a backdrop for today's news.

The first Can-Am free trade agreement

A secret agent armed with bags of money to bribe politicians and newspaper publishers, lavish entertainment, and gunboat diplomacy—including the seizure of 400 American fishing boats—were among the means used to secure the first Canadian-American free trade agreement in 1854.

But long before this, the stage was set by the crusade of liberal economists, social reformers, politicians, and manufacturers, who set out to spring Britain from the shackles of protection by the salvation of free trade with a promised grace of prosperity and peace.

“It is as foolish for a nation as for an individual to make what can be bought cheaper,” Adam Smith thundered in *The Wealth of Nations* in 1776, and the preachers of the free trade gospel—men like John Bright and Richard Cobden—echoed the refrain in a rising chorus with demonstrations and monster rallies throughout England. They were

joined by the rapidly expanding British manufacturers who wanted to conquer the world, not with armies and navies, but with steel, china, and textiles. The corn laws that imposed duties on imported grains, they argued, kept cheap bread from the working classes and benefited only the landed aristocracy. Low-cost production in English factories was the way to wealth and power, but the way was blocked by the high costs of tariff protection.

The corn laws comforted not only the British aristocracy; they were also a great boon to the farmers, millers, merchants and shippers in the four provinces, or colonies, of pre-confederation British North America—Canada, New Brunswick, Nova Scotia, and Prince Edward Island. The preferential tariffs, with low rates for the colonies and higher duties for everyone else, meant that any British demand for wheat and flour that could not be supplied by the farms of the British aristocracy, was supplied by the farmers and millers of Canada.

Even more important to the BNA provinces were Britain's preferential timber tariffs, established not to protect Britain's timber producers (most of the big British oaks had already been felled) but for national security. The Napoleonic wars convinced British leaders that their nation would be vulnerable if they relied on timber from the Baltic countries to keep the British navy afloat. The high tariffs on Baltic wood meant that timber not only for the British navy but also in general construction work, came primarily from the provinces of British North America. By the 1840s this trade protection cost the British, according to one estimate, £900,000 a year—a terrible burden on Britain but an enormous subsidy for the lumber operators in the colonies.

The most ardent British free traders were no great fans of colonialism. They viewed the defence of far-flung colonies as a burden and a waste; their existence a cause of wars, and a part of the vested interests in maintaining high tariffs. "I wish the British government would give you Canada at once," Lord Ashburton told the American Ambassador John Quincy Adams in 1827. "It is fit for nothing but to breed quarrels."

It was not a liberal economist who ultimately demolished the tariffs and brought free trade to Britain, but a Tory prime minister, Sir Robert Peel, much to the bitter chagrin of his fellow landowners. At the beginning of 1846, Peel announced that the timber tariffs would be slashed, while the corn laws were to be repealed over a period of three years. But because of the great Irish potato famine that killed more than one million people that year, the import duties on grains and flour were completely removed within 12 months.

In the BNA provinces of pre-confederation, the results were seen as the cause of unmitigated disaster. In Montreal, the most active business seemed to be bankruptcy. The city's English-speaking businessmen seethed with resentment. They felt burdened by the problems of looking after nearly 100,000 refugees who arrived in 1847 from the Irish famine: destitute, sick, and starving. They blamed England for oppressing these people, then dumping their problem on Canada. They resented legislation to compensate for damages suffered during the abortive rebellion in 1837. And some feared that the coming of responsible government would mean the loss of their political control to the French-speaking majority of the province. Their frustrations boiled over in 1849, into a riot in which the Governor General, Lord Elgin (James Bruce), was at-

**Former smuggler
Israel De Wolfe Andrews
secured a U.S.
assignment to spy on
Canadian economic data,
talked the British into
spying on U.S.
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with entertainment
and bribes.**

tacked on the steps of the legislature, the legislature was burned and ransacked, and for two days and nights an angry mob roamed the streets, looting and rioting.

In October that year, the Annexation Manifesto was issued in Montreal, demanding both economic and political union with the United States. The petitioners claimed that joining the United States would increase farm prices, lower the cost of imported goods, achieve greater exports, provide them with a greater voice in the government at Washington than they had in the government at London, and perhaps most importantly would swamp the French in a vast Anglo-Saxon nation. Among the 325 people who signed the Manifesto were John

Redpath, the sugar tycoon; the head of Canada's most powerful family, the Molsons; John Rose, after Confederation, a minister in the cabinet of John A. Macdonald; Alexander Tilloch Galt, one of the future Fathers of Confederation; and John Abbott, a future prime minister. It was no mere mob of radicals who saw Canada's best hope in joining the United States.

In Canada West, William Hamilton Merritt, a miller from St. Catharines and the man who had spearheaded construction of the Welland Canal to link Lakes Erie and Ontario for navigation by bypassing the Niagara Falls, had a different vision. In pamphlets and on the platform, in the pages of the *St. Catharines Standard*, and in the legislature where he sat as a Reformer (the predecessor of the Liberal party), Hamilton in 1846 became the leading advocate of free trade with the United States as the only possible alternative to annexation.

Merritt persuaded the legislature to petition Britain, asking the English to negotiate a free trade treaty with the United States on Canada's behalf. The next year, when Canada assumed the responsibility of setting its own tariffs, Merritt persuaded the legislature to lower the duty on imports of American manufactured goods from 12 percent to



Resentment over trade problems was one of the causes of two days of rioting in Montreal in 1849, in which Canada's Parliament was burned down. *The Burning of the Parliament Building in Montreal, painting attributed to Joseph Legare. McCord Museum 0609.*

7.5 percent, while increasing the duty on British imports from five percent to seven percent. The legislature adopted an Act offering free trade—or reciprocity—in a list of natural products whenever the Americans were prepared to take similar action. Lobbying in Washington, he succeeded in having a similar bill introduced in the U.S. Congress, but it was defeated in the Senate. Throughout all this, Merritt was in constant communication with the Governor General, Lord Elgin, who wrote to the Colonial office in London that, “unless reciprocity with the United States be established, these colonies must be lost to England.”

The talks dragged on for eight years, and before they were concluded another factor had entered the equation: a dispute over fishing rights off Nova Scotia and Newfoundland. Nova Scotia claimed that its three-mile territorial limit of exclusive fishing rights extended across all bays, from headland to headland. The Americans claimed that the three-mile limit hugged the shoreline, enabling them to fish inside the larger and wider bays. Partly to force Americans to come to terms with the demands for a reciprocity treaty, Britain announced that it would send a naval force to protect the fisheries. The United States replied by sending a warship to pro-

tect its fishermen. Confrontation on the high seas was avoided—at least for a time—when Britain and the United States agreed to negotiate a treaty to settle both the fisheries dispute and trade with the BNA provinces. The elegant Elgin was sent to Washington as a special envoy to negotiate the treaty.

A pathway through the political undergrowth had already been hacked away by special agent Israel de Wolfe Andrews. A native of Eastport, Maine, Andrews had started his working career facilitating North American trade by engaging in the popular business of smuggling. Some historians would have us believe that Andrews' covert nighttime activities led him to become a life-long advocate of free trade. He certainly became a fast talker. In 1849 he persuaded the American Secretary of State to assign him on a secret mission to gather statistical information and other data concerning the trade of the four BNA provinces. Then he persuaded the British ambassador in Washington to give him a similar assignment to spy out US data, while still secretly working for the Americans.

In early 1853, after conferring with President Franklin Pierce and Secretary of State William Marcy, Andrews was appointed "special agent" of the U.S. government to cultivate support in both the United States and the provinces for approval of a reciprocity agreement. Next he persuaded the City of Boston and the Canadian government to provide further funds for the same cause. With offices in the Astor House in New York and the National Hotel in Washington, Andrews spent more than a year as an early-day lobbyist and public relations hit man, entertaining politicians and journalists on both sides of the border, writing pamphlets, arranging supportive editorials, and plac-

ing funds with influential people. He collected \$110,000 from his sponsors for this work—an enormous sum in 1854—but claimed to have spent more than \$200,000. He spent the rest of his life seeking to collect the extra \$90,000, but had difficulty substantiating his claims because of the secret nature of his work and the supposed embarrassment that would result by revealing with whom the money had been placed. Unable to pay his debts, Andrews spent several short periods in jail, and died a destitute alcoholic.

With the early advocacy by Merritt, with gunboat diplomacy, with the lobbying of Andrews, with Lord Elgin's charm, wit, and gracious entertainment, the Reciprocity Act of 1854 was, as Elgin's secretary noted, "floated through on champagne." The agreement provided for free trade in such natural products as farm produce, fish, timber, coal, and other minerals. Americans were allowed to fish in the disputed waters off Nova Scotia and Newfoundland, to use the Canadian shores to dry their

fish, and Canadian ports for provisioning. The Maritimers, in turn, could fish off the American coast as far south as North Carolina, but more importantly, they had free access to the big American market. It was not, however, the last time that the fisheries became embroiled in dispute, or used as bait in trade talks.

Abrogation, Confederation, and the National Policy (1854-1891)

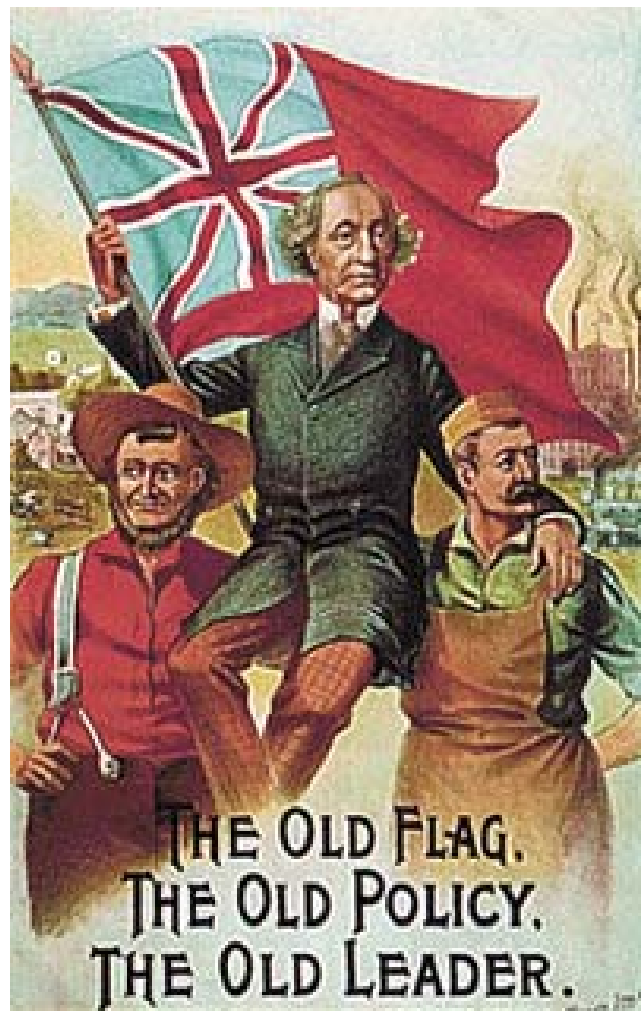
During the 12 years that it remained in effect, until March 1866, the reciprocity treaty brought good times to the four BNA provinces, as the value of trade with the United States tripled. How much of that prosperity was due to the free trade agreement and how much was due to other factors

Following abrogation of the 1854 - 1866 treaty, Canada seized 400 American fishing boats in dispute water, hoping to pressure the U.S. into a new free trade agreement. It didn't work.

is still a subject of debate by economic historians, but for Canadians of that era there was no doubt that free trade with the Americans was a very good thing.

With the end of the American civil war, however, the end of the treaty was also in sight. The Americans, as required under the terms of the treaty, gave a little more than one year's notice before the treaty was terminated. There were a number of causes: growing protectionist sentiment in the northern United States; American resentment of British sympathy for the South during the war; American resentment of some small-scale raids against the United States that had been launched from Canada by Confederate forces; a hope by some that abrogating the treaty might lead to annexation of Canada in the American drive for manifest destiny. It did not help that the anti-Americanism that has grown like a cancer into the bones of some much of Canada's nationalism, had already begun to germinate. Sniffed Lord Minto (Gilbert John Elliot-Murray-Kynynmound), a later governor general: "There is a general dislike of the Yankees here and I do not wonder at it... What the Canadian sees and hears is constant Yankee bluff and swagger & that eventually he means to possess Canada for himself."

The provinces hoped that the treaty would be extended, but they prepared for its end, planning to create their own free market among themselves, and then hopefully some day extend and expand it westward. Confederation was planned as the response to the end of free trade with the Americans. A delegation from the provinces to a colonial conference in London reported that they had "explained the immediate injury that would result to Canadian interests from the abrogation of the Treaty; but we pointed out at the same time the new and ultimately more profitable channels into which our foreign trade must, in that event, be turned, and the necessity of preparing for change, if indeed it was to come." Nine months after the Americans had given their notice, the provinces formed a Confederate Council of Trade, with two objectives: to form an economic union among themselves, and to re-establish trade reciprocity with the United States.



John A. Macdonald and the Conservatives returned to power in the 1891 election on a protectionist policy that painted free trade as a treason threat to Canada's British loyalty.

Confederation did not halt the quest for a free trade agreement with the United States, or reciprocity. The first tariff established by Canada, the year after Confederation, offered to eliminate duties on specified imports from the United States whenever the Americans were prepared to reciprocate.

The long procession of formal and informal missions to Washington to seek a renewed reciprocity agreement, started almost immediately. John Rose, the first Conservative minister of finance, led the parade in 1869, followed two years later by John A. Macdonald himself. The Liberal administration of Alexander Mackenzie in 1874 sent George Brown, who actually obtained the support of President Ulysses Grant for a draft agreement providing for free trade in 60 specified natural products,

agricultural implements, and 37 other categories of manufactured goods. But the American Congress refused to even consider it. The Conservatives sent yet another emissary, Charles Tupper, in 1887. Macdonald made his last pitch to the Americans in 1892, and Wilfrid Laurier made the final pilgrimage in 1896.

Not even the fisheries bait and gunboat diplomacy could budge the Americans into another reciprocity agreement. When the first treaty had been abrogated in 1866, Americans lost the right to fish in disputed Canadian waters, and Britain and Canada several times tried to use this as a bargaining chip. In 1870, Canada seized 400 American fishing boats, much to the wrath of the Americans. Britain, complained President Grant, had delegated fisheries authority “to the Dominion of Canada and this semi-independent but irresponsible agent has exercised its delegated powers in an unfriendly way.” It was to settle both this and secure a trade treaty that Macdonald had accompanied British officials to Washington the following year. He returned without the trade treaty, and with the fisheries dispute only temporarily resolved.

In between all these negotiations, Macdonald established the National Policy, which was claimed to have a double purpose. On the one hand, it set high tariffs to encourage the establishment of factories and manufacturing in Canada. On the other hand, the high tariffs were said to be a tool, which would pry a reciprocity agreement from the Americans. “Why should they give us reciprocity when they have our markets open to them now?” was Macdonald’s rhetorical question in Parliamentary debate. “It is only by closing our doors and cutting them out of our markets that they will open theirs to us.” The National Policy would establish both free trade and protectionism, at the same time.

Some said the reason the Conservatives had adopted a protective tariff policy was because the

Liberals had not. It was 1876. The Liberal administration of Alexander Mackenzie had been in power nearly four years, and would soon have to face the voters. It had been Mackenzie’s bad luck to win office just as the start of the first Great Depression, a quarter of a century of gloom interrupted by only a few brief periods of economic sunshine. Tough times sharpened the trade debate. Manufacturers clamored for protection. The staples producers—farmers, fishermen, lumbermen, miners—were demanding commercial union with the United States.

The country’s population was shrinking as Canadians, especially from Quebec, flocked to the United States.

In the Liberal camp, the free trade champion was Richard Cartwright, best remembered, said one historian, for his “improbable whiskers and uniquely passionate

hatred of John A. Macdonald.” The scion of a wealthy loyalist family, Cartwright had substantial business interests in transportation, mining, real estate, and manufacturing. He had started political life as a Conservative, until he quarrelled with Macdonald. Minister of finance in Mackenzie’s administration, Cartwright had hectored so vociferously for free trade that the Conservatives called him the Blue Ruin Knight. The advantages of free trade with the United States were so great, Cartwright declared, “that scarcely any sacrifice is too great to secure them.” It was not free trade but the lack of free trade that threatened to drive Canada into the arms of the United States, according to Cartwright. As for any loyalty or obligation owed to Britain, Cartwright argued that because of how the British had botched negotiations with the Americans, all that was owed them was Christian forgiveness.

The hard times also hit government revenues, which, before income tax was invented, depended primarily on the tariff. The Liberal budget in 1876 was expected to bring a much higher tariff. Con-

**John A. Macdonald may have
died a British subject, but
he was buried in an
American casket—a replica
of one for a U.S. president.**

servative finance critic Charles Tupper reputedly had prepared his speech for the House, attacking anticipated high tariffs. When they failed to appear, Tupper asked that the house rise early, and later that evening delivered his speech attacking the Liberals for failing to provide protection. The story was later elaborated by one of the leaders in the Conservative caucus, Dalton McCarthy:

No doubt in the world the Conservative party were put out of power [in 1873] and by going for the National Policy and taking the wind out of Mr. Mackenzie's sails, we got [back] into power [in 1878]. We became identified with the protective policy, and if Mr. Mackenzie had adopted a protective policy, we would have been free traders. I am willing to make this confession, that if Mr. Mackenzie had been a protectionist there would have been nothing left but for us to be free traders. But Mr. Mackenzie was either too honest or too earnest in his opinions to bend to the wave of public opinion and the result was that he was swept out of power and had only a corporal's guard to support him when the House met.

Beyond doubt the Conservatives were swept back into power on the National Policy platform when the election came in 1878, but there's little conclusive evidence that it attained its stated objectives. The National Policy established an average import duty of 28 percent: 25 percent on agricultural implements, 30 percent on railway equipment, 25 percent on woolen clothing; 30 percent plus half a cent per pound on refined sugar. But it did nothing to slow the exodus of Canadians leaving to live in the United States. The year after the policy was established, the number of Canadians who emigrated to the United States increased 300 percent, while the following year it increased a further 25 percent. In the two decades after the policy was established, some 1.5 million people immigrated to Canada—and two million left.

Organized labour was just starting to emerge in Canada, and the attitude of the labour leaders was reflected in the *Labor Advocate*, the journal of the Toronto Trades and Labor Council. Building Canada as a separate nation, said the *Advocate*, was “the greatest and most stupendous blunder” for which “the CPR was built, the protective tariff created, the north-west land monopolies endorsed, and the people's money squandered in immigration.”

The free trade debate dominated the next election, too, in 1891. Wilfrid Laurier had now assumed the leadership of the Liberals, and for their campaign platform they had adopted a policy of “unrestricted reciprocity”—completely free trade with the United States in both natural products and manufactured goods. Macdonald sought to steal the Liberal platform by arguing that the Conservatives could use high tariffs to compel the Americans to agree to reciprocity, and that Americans had, in fact, already suggested such an arrangement. But when American Secretary of State John Blaine wrote that, “There are no negotiations whatever on foot for a reciprocity treaty with Canada, and you may be assured that no such scheme for reciprocity with the Dominion confined to natural products will be entertained by this government,” Macdonald quickly shifted ground. He now attacked reciprocity as a scheme designed to break up the British Empire.

“A British subject I was born, a British subject I will die,” Macdonald declared. “With my utmost effort, with my latest breath, I will oppose the



Richard Cartwright, vociferous free trade champion, was called the Blue Ruin Knight because of his dire warnings about trade protections, also noted for his improbable whiskers. *Library and Archives Canada, PA 25961.*

‘veiled treason’ which attempts by sordid means and mercenary proffers to lure our people from their allegiance.” The Tories rolled out their banner—“the old flag, the old man, and the old party”—and won the election. Three months later, Macdonald died.

Macdonald may have died a British subject, but he was buried in a casket made in West Meriden, Connecticut, described as “an exact facsimile of that of the late [U.S.] President Garfield.” It was symbolic of the National Policy, which could not overcome the pull of geography, economics, and common sense.

Laurier and the 1911 Reciprocity election

Wilfrid Laurier led his party to victory in 1896, and the Liberals were soon accused of preaching free trade in opposition and practicing protectionism in power. Goldwyn Smith the intellectual gad-fly who preached not just economic but political union with the United States, described how the Liberals supposedly sold out to the manufacturers at meetings held in the “Red Parlour” of the Queen’s Hotel in Toronto:

On the neck of the Canadians... now rides an association of protected manufacturers making the community and all the great interests of the country tributary to their aims. Before a general election, the prime minister calls these men together in the parlour of a Toronto hotel, receives their contributions to his election fund, and pledges the commercial policy of the country.

A harsh judgement. Laurier faced the political need for compromise in a vast land of diverse and often

conflicting interests, not least the conflict between the industrial East and the agrarian West. He possibly went as far as he could to liberalize the tariff—even if that was not a great distance. He renewed the quest for a reciprocal treaty with the United States, and when he was rebuffed declared, “There will be no more pilgrimages to Washington. We are turning our hopes to the old motherland.” In its first two years, the Laurier administration eliminated the tariff on imported binder twine, reduced it on agricultural implements and refined sugar, arranged a preferential tariff that reduced the cost of British imports, and subsequently made other small adjustments.

The 16 years of the Laurier administration brought unprecedented expansion and prosperity. The depression that had hung so long over North America and Europe had at last lifted. Seventy

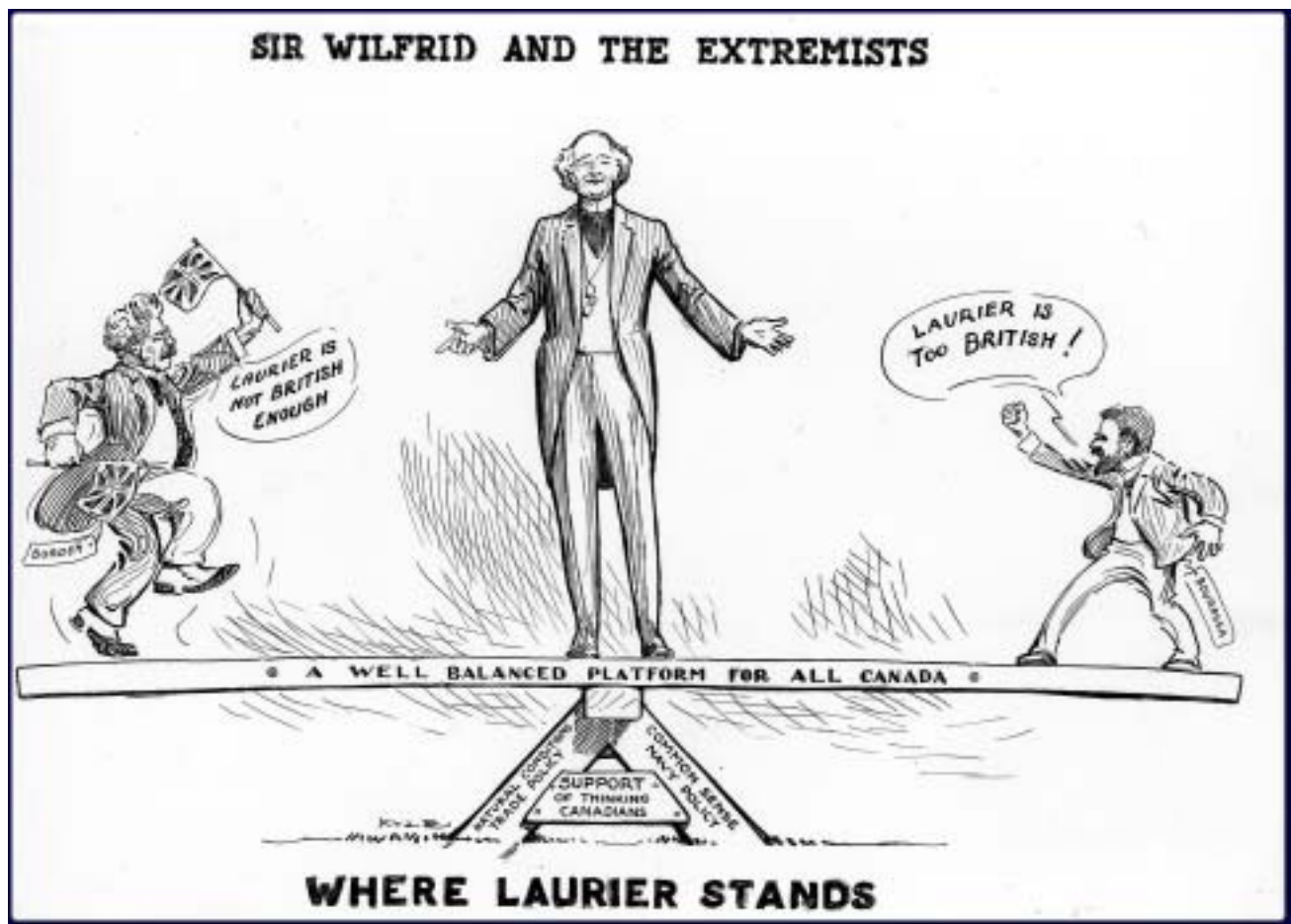
million acres of farmland were settled in the West. People poured in to fill up this empty country: 784,000 from the United States; 961,000 from Britain; 549,000 from other parts of Europe. Laurier seemed right when he said the twentieth century belonged to Canada.

How the Laurier era was ended by the great reciprocity election of 1911 has been told too often to bear repeating in detail. Perhaps more than ever before the

country was pulled by the conflicting demands of protection and free trade.

On a tour of the West in 1910, Laurier was met at massive meetings by tens of thousands of farmers who were angry at being squeezed by high, tariff-supported prices for everything they bought, and low prices for everything they sold, pushed down by world markets and the cost of railway transportation. “In 1896 you promised to skin the Tory bear of protection,” a farmer in Saskatoon bellowed.

Canadian voters in 1911 “seized on an opportunity to assert their independence of spirit, and, under an emotional upsurge that had nothing to do with logic... rebuffed the United States by rejecting an agreement that Canada has been seeking for the past 70 years.”



A Liberal cartoon depicts Wilfrid Laurier's opponents in the 1911 reciprocity election as French and British extremists, but the Liberals lost.

“Have you done it? If so, I would like to ask what you’ve done with the hide.” But in Vancouver, Laurier met a delegation of lumber interests who demanded protection. And W.H. Rowley, president of the Canadian Manufacturers Association, told the association’s 1910 annual meeting:

In season and out of season, in favour and out of favour, liked or disliked, I have always believed in protection, have always advocated it, and will always continue to do so. I have no politics other than protection, and I hope none of you have. If you have them, I think you should sink them for the good of the Association, for protection is the only politics the Association should recognize.

In Washington, President Taft saw some potential political advantage in reciprocity, which could lower food costs for consumers and newspaper costs for newspaper publishers. Through the editor of the *Toronto Globe*, Taft made it known that he would like to talk trade. In a series of meetings, Finance Minister W.S. Fielding and the Americans hammered out the terms of such an agreement. Fielding outlined those terms in the House on January 26, 1911. The Tories were stunned by the range of products that would gain duty-free entry in the huge U.S. market. The Liberals, reported the *Montreal Herald*, “cheered and cheered again.” Even some Conservative members from the West could not resist cheering. During the next couple of days, Conservative newspapers were among those that endorsed the agreement.

The railways and manufacturers quickly rallied the opposition. “Bust the damn thing,” CPR president William Van Horn ordered. The CPR was built to haul things east and west; it did not look with favour on a trade deal that would encourage hauling things north and south. The opposition was strengthened by 18 prominent Liberal businessmen—led by Laurier’s former cabinet strongman, Clifford Sifton, who came out strongly against reciprocity.

Conservative leader Robert Borden forged two alliances to fight the election. In Quebec, he joined forces with Henri Bourassa, leader of the Nationalists, in an appeal to anti-British sentiment. In Ontario, he was joined by the railways and the manufacturers in an emotional appeal to pro-British and anti-American sentiment.

Borden met in Toronto with four of the leading Liberal defectors—Sifton; Z.A. Lash, from Canadian Northern Railways; Lloyd Harris, who represented the Massey-Harris interests; J.W. Willison, editor of the *Toronto News*. The defecting Liberals outlined the terms for their support. Quebec and Roman Catholics were not to have a supposed undue influence in any Conservative government; Borden would bring men from outside Parliament into his cabinet; in forming his cabinet, Borden would consult with Lash, Willison, and Sir Edmund Walker, president of the Bank of Commerce. Borden agreed. By mid-August, some 9.5 million pieces of anti-reciprocity literature had been published by the Canadian National League, the Canadian Manufacturers Association, and the Canadian Home Market Association. The tone is indicated by the title of one tract, “An Appeal to the British-born.” On election day it was Conservatives 134 seats, Liberals 87.

Historian Edgar McInnis has summed up the election this way: “After long years of alternate bullying at the hands of their stronger neighbours, Canadians seized on an opportunity to assert their independence of spirit, and, under an emotional upsurge that had nothing to do with logic, they rebuffed the United States by rejecting an agreement that Canada had been seeking for the past 70 years.”

The vote was much closer than the standings: 666,074 for the Conservatives, 623,554 for the

Liberals. Farmers had voted for reciprocity, and in Alberta and Saskatchewan, the Liberals won 15 of 17 seats. From the bitter disappointment of the farmers emerged the Progressive Party, which campaigned in 1921 under the free trade banner to eclipse the Tories for second position in the House, with 65 seats to 50. The Liberals, under Mackenzie King, held 117 seats and a Parliamentary majority of one. The National Policy prevailed, but the spirit of free trade survived.

King, Bennett, depression, and tariff walls

As he clasped the fragile key to office, the free trade flame may well have continued to flicker in the heart of William Lyon Mackenzie King, but it was unlikely he could forget that this was the cause that in the 1911 election had cost him his Parliamentary seat as the boyish face in Laurier’s team. Doing anything about his preference for a lower tariff was not made any easier by U.S. action that same year that Mackenzie King returned the Liberals to power. The Americans raised their tariff wall a little higher with the 1921 Emergency Tariff Act, and Canadian sales to the United States that year fell by more than 40 percent.

In early 1930, at the outset of the Great Depression, U.S. duties jumped 50 percent with the Smoot-Hawley Act. King retaliated by increasing Canadian duties on American imports, and lowering them on British imports. American tariffs now averaged an astounding 37 percent; Canada’s tariffs, 26 percent. In October, with a Conservative election victory, Richard Bedford Bennett rode in from Calgary to take over as prime minister, promising to use his tariff guns to “blast the way to world markets.” The tariffs got higher—averaging 30 percent in 1933— and the depression got worse. Nowhere was it as bad as on the prairies. From 1928 to 1933, per capita income across Canada fell by an average of nearly 50 percent; in Alberta, by 60 percent; in Saskatchewan by 72 percent, according to one estimate. The tariff was blamed for skewering Atlantic and Western Canada. In 1934, the Government of Nova Scotia estimated that the tariff amounted to an annual subsidy of \$15.15 for everyone in Ontario and \$11.03 for everyone in Quebec, subsidies paid for by other Canadians at

rates varying from \$11.67 per person in Nova Scotia to \$28.16 in Saskatchewan. In the 1930s, you could eat for two months for less than \$30—and many people were hungry. More than a quarter of a million people left the prairies, and abandoned farms dotted the skyline.

Bennett and President Franklin Roosevelt met in 1933, and finally agreed “to begin a search for means to increase the exchange of commodities between our two countries.” But progress was very slow, until King and the Liberals were again returned to power in 1935, and set trade officials to work at a “terrific pace” to work out a trade treaty with the Americans. By November, agreement had been reached on the first Canadian-American trade treaty in nearly a century. It was not free trade, but it did slash the tariffs, and it accomplished what it was supposed to. In the next two years, Canadian-American trade increased by more than 50 percent, and began to blunt the depression.

Negotiations began on even further cuts, but this time they also involved reducing the tariff preference on British imports, thus requiring complex three-way negotiations. “Our discussions with the U.S. are the least of our worries right now,” wrote Norman Robertson, a senior official in the Department of External Affairs. “We can cope with them but not with God’s Englishmen and their inescapable moral ascendancy over us lesser breeds.” But agreement was reached with God’s Englishmen, as well as with the Americans, and tariffs were reduced still more. By the time the Second World War arrived in 1939, the back of the depression had been broken—if not by free trade, at least by freer trade.

A secret deal, sunk by politics

Canadian-American trade did not become a big issue again until 1947, when a free trade agreement was secretly pursued as the solution to a severe dollar crisis. The world by then had resolved that never again would protectionism lead to such massive misery and destruction, and Canada was one of the nations leading the way to peace and prosperity through the General Agreement on Tariffs and Trade (GATT, now the World Trade Organization). But now Canada faced a crisis that could

cause it to restrict imports, at least temporarily. After the war, Canada loaned Britain and other European nations some \$2 billion—15 percent of Canada’s gross national product—to help European recovery, in return counting on those nations to buy Canadian goods and help create Canadian jobs. But the devastated European nations could not pay cash for Canadian food and supplies. Meanwhile, Canadians were spending \$2 for American goods and services for every \$1 sold to the Americans.

Something would have to be done. Like a debtor that can’t pay its bills on time, Canada approached its creditor, the Americans, to see if something could be worked out. Among the parade of officials who left Washington were Hector McKinnon, chairman of the Canadian Tariff Board, and John Deutsch, a senior official with the Department of Finance. It was McKinnon and Deutsch who had just recently negotiated Canada’s participation in GATT. An American memorandum on the first informal meeting held in Washington by McKinnon and Deutsch said the two Canadians felt that “Canada must either integrate her economy more closely with that of the United States, or be forced into discriminatory policies.” And that could bring a “danger of friction with the United States, if not economic war.”

Deutsch, the son of a Saskatchewan farmer, was a born-in-the-bones free trader. In a confidential letter to a newspaper friend, Deutsch wrote: “We have the choice between two kinds of worlds—a relatively free enterprise world with the highest existing standard of living, and a government-controlled world with a lower standard of living.” If the answer seemed obvious, Deutsch also warned that the first choice “means meshing our economy as much as possible with that of the United States.”

After several weeks of informal talks, the Americans approached Deutsch “on a strictly confidential and private basis” at a New Year’s Eve dinner party in Washington. A conventional customs union was politically out of the question, since that would, in effect, allow the Americans to dictate Canada’s tariff with the rest of the world. The Americans suggested a modified customs union in which there would be substantially free trade between the two

countries, but each would set its own tariffs on trade with other nations.

In Ottawa, there was strong support for the idea by Trade Minister C.D. Howe, Finance Minister Douglas Abbott, and even Mackenzie King. McKinnon and Deutsch were authorized to work out the details of an agreement with the Americans, which they did.

On April 1, 1949, Deutsch met with Abbott, Howe, Louis St. Laurent (who would become prime minister when King retired within a few months), and Lester Pearson (then under secretary of state for external affairs). Howe, Pearson and King were all in favour. Howe thought it would make a magnificent issue for the Liberals in the next election. Abbott and St. Laurent expressed concern about the short length of time to secure Congressional approval for a treaty before the U.S. presidential election in November.

The decision turned on King, but his initial ardour had already cooled. An editorial in *Life* magazine two weeks before this meeting called for a conventional type of customs union between Canada and the United States, the type of deal that meant Canada's tariffs with the rest of the world would be dictated by Washington. This sounded a bit too much like the Americans whose unthinking out loud had helped lead the way to the still-remembered reciprocity election defeat in 1911, like Congressman Champ Clark who had said "I am for it because I hope to see the day when the American flag will float over every square foot of British North American possessions, clear to the North Pole."

Later, in a letter to Norman Robertson, then Canada's High Commissioner in London, Pearson described how the decision had been taken at the April fool's day meeting. King, wrote Pearson, agreed that, "from the economic point of view, there was everything to be said for the proposal and little against it." But on political grounds, King felt that "the Conservatives would seize on the issue... in order to force an early election. They would distort and misrepresent the proposal as an effort on the part of the Liberals to sell Canada to the United States for a mess of pottage. All the old British flag-waving would be resurrected by the Conser-

vatives." The others apparently did not share this concern, but they acquiesced to King's decision, although they "felt particular regret at the necessity of coming to this conclusion."

Ottawa was forced to impose temporary restrictions on how much Canadians could spend on American goods and travel (to no more than \$150 a year for pleasure travel in the U.S.). The dollar crisis soon passed, however, helped by large American investments, by the 1947 discovery of oil in Alberta, and other economic developments. John Deutsch was reportedly bitter about the loss of this opportunity, but in the end he was proven right. The tariff continued to shrink, the Canadian economy became more closely integrated with that of the United States, and by comparison with virtually any other era or area, Canada enjoyed a period of unprecedented growth and prosperity.

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