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CANADA

1933-34

DEPARTMENT OF STATE  
DIVISION OF WESTERN EUROPEAN AFFAIRS  
MEMORANDUM

*Canada*

April 18, 1933.

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Mr. Phillips:

I am summarizing in the following paragraphs the questions which the Canadian Prime Minister, the Right Honorable Richard Bedford Bennett, may raise in his conversations with the President, and his general attitude on world problems. My information is based on a letter which I have just received from Mr. Boal, our Chargé d'Affaires at Ottawa, giving the substance of recent talks which he has had with the Prime Minister; other despatches from the Legation at Ottawa; Canadian newspaper reports; the Prime Minister's speeches in the House of Commons during recent months and information which has been obtained in conversations with the Canadian Minister and members of his staff here.

1. A trade agreement with the United States.

Mr. Bennett is keenly desirous of reaching a trade agreement with the United States, and if the President does not raise this subject in the conversation, he will be almost certain to do so. Foreign trade is of even greater importance to Canada than to the United States; in normal times Canada exports more than one-third of her total production as compared with about one-tenth in the United States. A Liberal member of Parliament,

Mr. Duff

Mr. Duff of Nova Scotia, recently introduced a resolution calling upon the Canadian Government immediately to enter upon negotiations for a trade agreement with the United States, and this resolution received an enthusiastic reception in the Canadian House of Commons. Mr. Bennett, in the debate, admitted that the United States was Canada's natural market and stated that his Government would welcome negotiations with us, but that he felt that "the first move should come from the United States". Mr. Bennett recently informed Mr. Boal, our Chargé at Ottawa, that in his opinion the United States and Canada should conclude a trade agreement, if possible, before the opening of the World Economic Conference.

There are four difficulties in the way of the conclusion of a satisfactory trade agreement between the United States and Canada; namely:

1. The Canadians will insist upon free entry into this market or greatly reduced rates upon such primary products as fish, feeder cattle, potatoes, copper, fresh milk and cream, and lumber. Reduction in our duties on these products will undoubtedly be difficult for political reasons in this country.

2. In Canada's trade agreement with the United Kingdom, signed at Ottawa last August, Canada bound herself to maintain the present margin of preference

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to Great Britain on approximately 220 products. On certain of these products we will be almost sure to desire reductions in the Canadian duty, which can not be made without the consent of Great Britain.

3. Mr. Bennett heads a conservative government which has always favored high protection in Canada, and it is not clear how far he will be able to go in granting tariff reductions on agricultural and industrial imports from the United States.

4. The Canadian Customs Act confers arbitrary authority upon collectors of customs to fix the values of foreign goods at almost any level they desire, if the imports of the goods would cause injury to Canadian industry. In some respects the misuse of this authority has been more objectionable than the rates of our duty. I regard a change in the Canadian law and regulations on this subject as sine qua non to a trade agreement with the United States.

I do not regard these ~~three~~ difficulties as insurmountable and feel hopeful that we may be able to work out a satisfactory trade agreement with Canada. I do not believe, however, that it would be good strategy for

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us to sign our first trade agreement with Canada. Mr. Bennett would in such circumstances be in a position to say to the people of Canada that he had brought the United States to its knees by tariff retaliation and forced us to sign a trade agreement. It is to be supposed that our first trade agreements may be signed with countries owing us war debts; aside from such countries, if our first agreements with non-debtor countries were to be signed with countries like the Netherlands, Norway or Sweden, where there has been no punitive tariff legislation against us, the conservative Government of Canada could make the above-mentioned claims to the Canadian electorate in less convincing terms.

2. Currency and exchange.

Last Thursday the stock tickers carried a rumor out of Ottawa that Mr. Bennett would propose that the United States and Canada join together in some kind of inflationary movement. This rumor had a certain amount of temporary effect on exchange quotations. Mr. Bennett recently stated to Mr. Boal his conviction that a prerequisite to the success of any trade agreement must be measures which will insure a stable relationship

relationship between American and Canadian currency. The Canadian dollar has fluctuated considerably since Great Britain went off the gold standard. Its lowest quotation was about 78 cents; during recent months it has varied from 80 cents to 85 cents, the quotation yesterday being 83.75 cents. Nominally on the gold standard, Canada prohibits the exportation of gold except under permit from the Minister of Finance. In a conversation with Mr. Boal, Mr. Bennett suggested the advisability of a reduction in the gold content of both our dollar and the Canadian dollar; Mr. Boal believes that the Prime Minister would advocate a value of about \$30 an ounce for gold.

From an economic standpoint conditions in Canada are bad. While there have been no bank failures because of the fact that they have a small number of very large banks with many branches (there are only 10 chartered banks in Canada, of which 4 have approximately three-fourths of the total deposits), there have been rumors that the Royal Bank of Canada is in difficulties. One of our officers stationed in Canada recently described to me the situation of Canadian banks as being like "a small group of drunk men with their arms around one another, no one of whom could stand alone". Conditions

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in the prairie provinces (Manitoba, Saskatchewan and Alberta) are desperate. There is a very strong movement in Canada for currency inflation of some sort; the most popular type of inflation would be an inflation of the dollar to the same extent as sterling and a linking of the dollar to sterling.

Mr. Bennett does not believe that the depression is over, and he feels that if far-reaching international solutions are not reached this year, it may become impossible for Canada to continue to fulfil all of her obligations and to maintain her credit. Mr. Bennett told Mr. Boal that he has already drafted a plan of action to be taken in the event of the failure of the World Economic Conference, a plan of which not even his colleagues in the Cabinet have any knowledge. He did not say what this plan involves but presumably it means inflation and default on certain Canadian governmental obligations. Our investments of \$3,500,000,000 in Canada are a heavy drain on the Dominion's financial resources.

3. The Great Lakes-St. Lawrence Deep Waterway Treaty.

The Prime Minister will undoubtedly say to the President that he hopes very much that our Senate will approve this Treaty as soon as possible. The Canadian Government is in a position to put the Treaty through Parliament immediately after approval in the United States.

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They desire to get the Treaty through as soon as possible and start construction work, not only to relieve unemployment but to remove the Treaty from the list of issues in the next Canadian election. Ordinarily there is a general election in Canada every four years. This would mean an election some time in 1934, but Mr. Bennett could hold office until 1935 (the constitutional term is five years), and our opinion is that he probably will do so unless there is a sharp turn for the better before next year.

4. War debts.

Mr. Bennett will probably bring up the question of the war debts. Herridge tells me that Mr. Bennett some time ago wrote a personal letter to Prime Minister MacDonald, urging that Neville Chamberlain's utterances be suppressed and that Great Britain prepare to make trade concessions to induce the United States to scale down the war debts. Mr. Bennett prides himself on understanding both our position and that of Great Britain and would like nothing better than to feel that he could act as some sort of intermediary between the President and Mr. MacDonald. Herridge told me some time ago that Canada's interest in this question was by no means altruistic, and that he was convinced that no other

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single step would so improve economic conditions in Canada as a general liquidation of the war debts. He added that if it should appear necessary to bring about such a liquidation for Great Britain to make tariff concessions to the United States on products covered by the Ottawa Agreements, in his opinion Canada would not stand in the way of the settlement of so important a question. He made it clear, however, that he was speaking his own personal views.

5. The International Joint Commission.

Mr. Bennett may raise with the President the question of joint action by Canada and the United States to improve the standing of the International Joint Commission. This can be done only by the selection of higher grade men for membership on the Commission.

6. Wheat.

I consider it unlikely that Mr. Bennett will discuss the question unless the President brings up the subject. Canada, of course, has a large surplus of wheat and a problem similar to our own in the way of a farm crisis aggravated by low prices. At the same time the Canadian Minister here has not given us any definite information about how far Canada would go in an agreement to limit the production of wheat. Mr. Bennett will undoubtedly

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ask the President for information about the farm bill.

7. Trail Smelter case.

We have been pressing the Canadian Government to appoint a representative to confer with the representatives of this Government in formulating an agreement in respect to the Trail Smelter case. A large smelter owned by a subsidiary of the Canadian Pacific Railway Company, situated at Trail, British Columbia, discharges quantities of poisonous sulphur which drift over the line into the State of Washington, causing heavy damages. This case was, on our insistence, submitted to the International Joint Commission in 1928. The Commission's recommendations in 1931 proposed an assessment of \$350,000 against the smelter for past damages in the United States and the adoption of measures of control which would prevent further damage in this country. We had technical objections to the report of the International Joint Commission but have found it in the main satisfactory. The Canadian Government has agreed to appoint a representative to confer with us on this subject, but has not yet appointed such an official. Our present problem is to endeavor to persuade them to expedite this appointment. The two senators from the State of Washington have been pressing us on this case.

*F.M.*

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THE UNDER SECRETARY OF STATE  
WASHINGTON

April 26, 1933.

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Dear Mr. McIntyre:

I am sure the President knows all there is to be known about Mr. Bennett, but in case he wishes to refresh his memory I enclose a memorandum which sets forth briefly his career.

Sincerely yours,

*William Bullitt*

The Honorable  
Marvin H. McIntyre,  
Secretary to the President,  
The White House.

Canada

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MEMORANDUM.

The Right Honorable Richard Bedford Bennett, P. C. (Privy Counselor), LL.B., K.C. (King's Counsel), LL.D., M. P. (Member of Parliament), was born at Hopewell, New Brunswick, July 3, 1870. Mr. Bennett is a member of the United Empire Loyalists, that is, a descendant from Tories who fled into Canada because of loyalty to Canada during our Revolutionary War. He was educated at public schools in New Brunswick and at Dalhousie University at Halifax. In 1893 he was admitted to the bar of New Brunswick and practiced law in that province until 1897, when he moved West to Calgary, Alberta, of which City he is still a resident. In Calgary, Mr. Bennett became a successful corporation lawyer and amassed a comfortable fortune. He was at one time General Counsel of the Canadian Pacific Railway Company.

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In 1909 Mr. Bennett began his political career as a member of the legislative assembly of Alberta. He became a member of the Federal Parliament in 1911 as a Conservative who campaigned actively against the reciprocity agreement with the United States. He represented Calgary in the House of Commons from 1911 to 1917, when he retired. In 1921 he ran for Parliament again but was defeated. In 1925 he was again elected to the House of Commons, and in October, 1927, he was chosen leader of the Conservative Party at a national convention in Winnipeg; this position carried with it that of official leader of the opposition in the House of Commons. In the general election of July 28, 1930, Mr. Bennett's party triumphed, and he was sworn in as Prime Minister August 7, 1930. Mr. Bennett also holds the portfolio of Secretary of State for External Affairs.

Prime Minister Bennett is a bachelor. The Canadian Minister here, Major W. D. Herridge, married Mr. Bennett's sister in 1931, and Herridge probably has more influence with Bennett than any other person. Mr. Bennett has for years been a high tariff Conservative who has built his political views around the premise that Canada could become prosperous by keeping out of the country all goods which could be produced in the Dominion. In 1930 his

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two principal election promises were to "end unemployment" and to "blast Canada's way to world trade." It is fair to add, however, that Mr. Bennett's views have mellowed somewhat during the past two and a half years, and he is undoubtedly convinced that economic nationalism all over the world has gone too far.

Mr. Bennett's position in the Conservative Party is unusually strong. His Cabinet is strictly a one man show and is completely dominated by him. He has an ample majority in Parliament and is in a position to obtain approval of virtually any program which he should desire to sponsor.

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Miss Letland

IMMEDIATE RELEASE

April 27, 1933

FOR THE PRESS

JOINT STATEMENT ISSUED BY PRESIDENT ROOSEVELT  
AND PRIME MINISTER BENNETT OF CANADA

The Prime Minister of Canada and the President have discussed further ~~expere~~ the program of the World Economic Conference and related questions of trade policy in which these two neighboring governments have an important and immediate concern.

They have found this exchange of views very helpful.

Present also were the Canadian Minister, the Secretary of State and Assistant Secretary of State Raymond Moley.