

REFERENCE PAPERS

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CANADA AND LEND-LEASE

Canada is the only one of the co-belligerent nations that has not found it necessary to accept lend-lease from any outside source.

It has paid cash for all its imports throughout the war and met all its debt payments on time. It is now the only country that has maintained payment of World War I debts without interruption.

In addition, Canada has drawn increasingly on its own resources to provide assistance for Great Britain, Russia, China and other allies.

To provide Britain with funds, the government paid off in advance the whole balance of its British-held federal debt; and a considerable volume of other Canadian securities has been bought back through government channels by the Canadian public.

Last year Canada made Britain a \$1,000,000,000 gift of war supplies. This year, under the new Mutual Aid program, \$1,000,000,000 worth of war material will be available for gift to any of the United Nations who will use it and cannot pay for it.

The cost of this material is being borne by the Canadian taxpayers and is nearly twice the amount of their pre-war federal budget, a quarter of their normal national income.

Other war supplies will be available in large volume for those of the United Nations who can pay. At present 70% of Canada's entire war output goes by gift, exchange or purchase to its allies (a fifth of it to the United States). On this basis Canada is the third largest contributor of war supplies to the other United Nations.

War production in Canada entails heavy purchases of materials and components from the United States, ranging from coal to aircraft engines. During the first year of the war, United States' imports to Canada nearly doubled in volume, and the rise has continued.

There were cash-and-carry purchases. Deliveries to Great Britain

Exchange
Bottleneck
Threatened

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copy
book
attached

on the other hand had to be financed increasingly in Canada. During the first 15 months of the war, \$250,000,000 worth of gold was received from Britain, but all of this gold, and more from Canada's own reserves, was required to pay for the United States components that went into orders for Britain. The requirements of the Canadian war program had, of course, to be met simultaneously.

The drain on Canada's resources of United States exchange grew serious and threatened to become insupportable despite every possible economy in non-war purchases from the United States.

In 1940 non-essential civilian imports were heavily restricted, and pleasure travel to the United States was suspended in order to reserve the available United States funds for war needs. It was still in prospect, however, that the bottleneck of United States dollars would cramp Canada's output of munitions at a time of desperate need.

Borrowing in the United States was ruled out by the Neutrality Act.

The total of Canadian investments in the United States, if liquidated, would have provided only a few months' stop-gap. Lend-lease was made available to Canada, but to accept it would have meant imposing an added burden on the United States which was not then at war. The march of events and the relationship of the two countries provided a solution which appeared both business-like and adequate.

By arrangement between President Roosevelt and Prime Minister King at Hyde Park on April 20, 1941, two steps were taken to meet the situation:

- (1) Co-ordination of war production so that each country should provide the other with those war supplies which it could produce most readily and rapidly.
- (2) Lease-lend directly to Britain of those components which Canada previously had purchased in the United States for inclusion in British war orders.

This relieved Canada of the cost of United States' imports for transfer to Britain.

Solution Found
at Hyde Park

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- (2) Lend-lease directly to Britain of those components which Canada previously had purchased in the United States for inclusion in British war orders.

This relieved Canada of the cost of United States supplies for transfer to Britain.

It also increased the volume of its exports to the United States and thus reduced its adverse United States trade balance.

Some Canadian war factories were already well advanced in their production and able to furnish equipment immediately for the United States rearmament program. This material included ships, guns and ammunition. There were also certain vital materials, such as copper, which hitherto had been in surplus supply, but now were rationed to help meet the impending United States shortages. By 1942 Canada was providing 40% of the aluminum going into United Nations war production, and the whole of its strategic metal output was absorbed into the North American war program.

The Hyde Park Declaration thus provided for an integration of physical production on the North American continent, and to some extent an integration of credit. Under it, every possible measure has been taken to streamline North American output, to arrange that supplies are drawn from the readiest sources and fabricated in the most suitable plants on either side of the international border.

The exchange of these supplies, however, as between the United States and Canada, has remained on a cash basis.

The question of financial aid to Britain was in one respect peculiar the debtor was proposing to finance its creditor.

Canadian governments and corporations in the past have been heavy borrowers in London and New York. The stocks of several large Canadian companies are also largely held abroad. Shortly before this war, the total volume of Canadian securities held in the United Kingdom was estimated at \$2,600,000,000 - five times the normal Canadian budget. There was no corresponding volume of British securities held in Canada.

The logical first step toward providing funds for Britain was that Canada should pay off her debts. This was accordingly undertaken, both through government channels and through the open market.

It was soon evident, however, that these measures would not cover Britain's deficit on the steadily expanding flow of material from Canada. The production of these supplies had to be financed by the Canadian government,

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Gift to Cover
Deficit

By 1941 Canadian exports to British countries had reached more than double their pre-war volume. The sterling area's net deficit of Canadian funds up to the end of February, 1942, had amounted to \$1,770,000,000, and the government's accumulated blocked balance of sterling in London at that point totalled more than \$1,000,000,000.

Recognizing that this rapid piling up of financial claims could only be disturbing in its post-war effects, the Canadian government determined to check the movement.

It appropriated \$1,000,000,000 as a gift to Britain to cover its deficits for the last nine months of 1942. The accumulated sterling balance in London was partly applied to immediate redemption of the remaining Canadian government debt in Britain, and the residue (\$700,000,000) converted into a dollar loan, interest-free to the end of the war.

This left the two countries mutually indebted, but with Canada still in a net debtor position since the Canadian securities still held in Britain amounted to more than the \$700,000,000 loan. (The subsequent repatriation of further securities has brought the position of the two countries more nearly into balance).

It left the Canadian government with only a normal working balance in sterling funds.

It provided for munitioning of Britain on a maximum scale without further increase in its obligations to Canada.

Aid Policy
Extended

A part of the material supplied from Canada under this arrangement has been passed on by the United Kingdom to other British countries, Russia and China, on lend-lease terms.

In order to broaden and simplify the mechanism for such transfers, the Canadian government announced in February, 1943, that it would bring down a Mutual Aid bill appropriating \$1,000,000,000 "for the purpose of making

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It left the Canadian government with only a nominal working balance in sterling funds.

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In order to broaden and simplify the mechanism for such transfers, the Canadian government announced in February, 1943, that it would bring down a Budget Bill appropriating \$1,000,000,000 for the purpose of making

war supplies available to any of the United Nations."

The \$1,000,000 provided for Britain had meanwhile been exhausted, and the new arrangement was to take its place.

Introducing this measure on May 6, Finance Minister Ilesley outlined a four-point policy.

"(1) We wish to provide the war supplies which we are able to produce, over and above the requirements of our own forces, to our allies on the basis of strategic need, and we do not want any shortage.. of Canadian dollars on their part to make it impossible for them to obtain such supplies. In the term 'war supplies' we include farm products and raw materials, which are necessary either for the production of munitions or for the maintenance of the services or civilian population of our allies.

"(2) We propose to enter into whatever reciprocal arrangements are practical, under which our allies will furnish us with supplies or services in return for what we provide, and we also take power to stipulate for the return to us after the war of any supplies or equipment furnished under Mutual Aid which appear likely to have a post-war usefulness.

"We do not propose, however, to provide aid only in those cases where it is possible to arrange for reciprocal aid, because in some cases this may be impracticable or undesirable. As I explained in February, it is an essential feature of this proposal that we may regard it as good and sufficient consideration for transferring war supplies to other United Nations that such supplies are to be used in the joint and effective prosecution of the war.

"(3) We desire to avoid either piling up huge war debts by selling our supplies to our allies for payment after the war, or creating indefinite and uncertain post-war obligations which might arise out of transfers conditional upon undefined post-war considerations.

"It is for this reason that we have set out clearly in the bill the essential feature that the effective use of the war supplies in the prosecution of the war may be deemed good and sufficient consideration for their transfer. Moreover, we intend where any terms and conditions are provided for to have these clearly specified at the time of transfer.

"(4) We propose to deal directly with the various countries requiring Mutual Aid from Canada and not to provide such aid to one country through the agency of another."

Allocations of credit under the new measure will be administered by a board of five cabinet ministers with the necessary staff.

Mr. Ilesley explained that, with Great Britain and the United States both providing aid to their allies on similar principles, Canada desired to assume the responsibilities of its own growing financial and industrial strength. The term "Mutual Aid" had reference to the fact "that this is aid to ourselves as well as our allies."

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a four-point policy:

"(1) We wish to provide the war supplies which we are able to produce over and above the requirements of our own forces to our allies on the basis of their needs, and we do not want any change of Canadian policy on their part to make it impossible for them to obtain such supplies. In the event we are unable to provide them with the supplies which are necessary for the production of munitions or for the maintenance of the services of civilian population of our allies.

"(2) We propose to enter into whatever technical arrangements are practicable, which our allies will desire, in order to supply or services in return for what we provide, and we also wish to maintain the return to us of the way of any supplies or equipment furnished under the terms of such arrangements as have a post-war character.

"We do not propose, however, to provide aid only in those cases where it is possible to arrange for post-war aid. It is our policy to provide aid in those cases where it is possible to arrange for post-war aid. As I explained in February, it is an essential feature of this program that we not regard it as food and supplies for the war, but as a program for the post-war period. It is our policy to provide aid in those cases where it is possible to arrange for post-war aid.

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War Cost
Equals Forty
Years' Bud-
gets

The extent of Canada's financial aid to Britain, and through Britain to other United Nations, may be summarized to January 1, 1943, as follows:

Repatriation of public and private debt	more than \$ 800,000,000
Loan to Britain	700,000,000
Gift to Britain	<u>1,000,000,000</u>
	more than \$2,500,000,000

Since that date further funds have been released by the purchase of British war plants in Canada (\$200,000,000) and by assuming maintenance (\$383,000,000 this year) of Royal Canadian Air Force personnel newly organized into Canadian squadrons overseas and those still serving with the Royal Air Force.

The \$1,000,000,000 appropriated under the Mutual Aid Bill represents a continuance and consolidation of this program of financial assistance.

The measures mentioned here have reference only to the problem of providing credit or exchange to help finance the flow of Canadian material to other United Nations. They are additional to its monthly gift of food to Greece and the cost of Canada's direct war participation. This latter includes, in addition to the equipment and maintenance of its own armed forces, the administration and half the cost of the British Commonwealth Air Training Plan, developed in Canada since 1939. Canada's commitments in respect of this one project amount to approximately \$1,250,000,000 to March 31, 1945.

Total Canadian war expenditure to March 31, 1944, will be in excess of \$12,600,000,000. This is roughly equivalent to the aggregate of federal budgets over the previous 40 years or 22 years' expenditure on the 1939 scale.

Total cost to Canada of World War I was \$1,600,000,000.

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Repayment of public and private debt	more than \$ 800,000,000
Loan to Britain	700,000,000
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Gift from \$2,500,000,000	

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