

CANADA AND THE WAR

THE
HYDE PARK DECLARATION

Cooperation in Economic Defence

STATEMENT BY

Right Hon. W. L. MACKENZIE KING, M.P.

Prime Minister of Canada

HOUSE OF COMMONS, APRIL 28, 1941

*Issued by the Director of Public Information, Ottawa,
under authority of Hon. J. G. Gardiner,
Minister of National War Services*



OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1941

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On March 12, I described the United States Lease-Lend Act as one of the milestones of freedom, pointing the way to ultimate and certain victory. The Lease-Lend Act settled the principle of United States assistance to Britain and the other democracies. It did not, however, solve all of the complex economic problems involved in the mobilization of the resources of the United States and Canada in order to render to Britain, in the speediest manner, the most effective assistance and support.

One of the reasons for my recent visit to the United States and my conferences with the President, was the urgent need for Canada to find an immediate solution of some of the problems involved in our war-time economic relations with the United States and with the United Kingdom. Before indicating the extent to which a solution has been found in the Hyde Park Declaration, I shall outline briefly the problems themselves.

The War Exchange problem

It will be readily recognized that we, in Canada, could not possibly have embarked upon our existing programme of war production if we had not lived side by side with the greatest industrial nation in the world. Without ready access to the industrial production of the United States, and particularly the machine tools and other specialized equipment so necessary in producing the complex instruments of modern war, Canada's war effort would have been seriously retarded. We would have been forced to embark upon the production of many articles which, because of limited demand, could only have been produced at high cost, and over a considerable period of time. Canada also lacks certain essential raw materials which must be procured from the United States. Since the outbreak of war, we have steadily expanded our purchases in the United States of these essential tools, machines and materials which were required both for our own Canadian war effort, and in the production of war supplies for Britain.

Even in normal times Canada purchases much more from the United States than we sell to our neighbours. In peace time we were able to make up the deficit by converting into United States dollars the surplus sterling we received as a result of the sale of goods to Britain. But from the outset of war, this has been impossible. The government realized at once that Canada would be faced with a growing shortage of United States dollars to pay for our essential war purchases. To conserve the necessary exchange the Foreign Exchange Control Board was established on September 15, 1939. As the need has grown, increasingly stringent measures have been adopted to reduce

the unessential demands for United States dollars in order to conserve sufficient funds to make our payments for essential weapons and supplies of war. These war purchases could not be reduced without a corresponding, or perhaps an even more serious reduction in our war effort. Despite the drastic measures taken to conserve exchange, the lack of United States dollars was becoming, as one writer expressed it, one of the most serious "bottlenecks" in Canada's war effort.

Risk of wasteful duplication of production

The problem of exchange was the most urgent problem we faced in our economic relations with the United States. But we also realized a growing danger of possible unnecessary duplication of production facilities on the North American continent, with consequent undue pressure on scarce labour and materials if Canada and the United States each tried to make itself wholly self-sufficient in the field of war supplies. We felt it imperative to avoid such waste, which might well have had the most serious consequences. The experience of the Department of Munitions and Supply, and the studies of the Permanent Joint Board on Defence, both suggested the same solution. That solution was the co-ordination of the production of war materials of Canada and the United States. This was in reality a simple and logical extension, to the economic sphere, of the Ogdensburg Agreement.

The practical experience of a year and a half of organizing and developing war production in Canada revealed that many of the essentials of war could be made in the comparatively small quantities required by Canada only at a prohibitive cost. They could,

however, be produced economically in the United States where the demand was large enough to result in the economies of large-scale production. On the other hand, the production of other weapons and materials had been developed in Canada to the point where output could be expanded more quickly, and probably more economically, than new production facilities could be organized in the United States. It was, therefore, only common sense to extend to the production of war materials the same reciprocity in which, at Ogdensburg in August last, our two countries had permanently placed their defence.

Visit to the United States

During my Easter visit, I had the opportunity of preliminary discussions with the Secretary of State, Mr. Cordell Hull, and the Secretary of the Treasury, Mr. Morgenthau, at Washington. I also, later, had an opportunity of conferring with Mr. Harry Hopkins, who has been entrusted with immediate direction and supervision of the measures to be taken under the Lease-Lend Act. On Sunday, April 20, I spent the day with the President at Hyde Park. At the close of the visit, I gave to the press a statement of the understanding which the President and I had reached regarding the problems I have mentioned. That statement it is proposed to call the Hyde Park Declaration.

The Hyde Park Declaration

The Declaration reads:

"Among other important matters, the President and the Prime Minister discussed measures by which the most prompt and effective utilization might be

made of the productive facilities of North America for the purposes both of local and hemisphere defence, and of the assistance which in addition to their own programme both Canada and the United States are rendering to Great Britain and the other democracies.

"It was agreed as a general principle that in mobilizing the resources of this continent each country should provide the other with the defence articles which it is best able to produce, and, above all, produce quickly, and that production programmes should be co-ordinated to this end.

"While Canada has expanded its productive capacity manifold since the beginning of the war, there are still numerous defence articles which it must obtain in the United States, and purchases of this character by Canada will be even greater in the coming year than in the past. On the other hand, there is existing and potential capacity in Canada for the speedy production of certain kinds of munitions, strategic materials, aluminium and ships, which are urgently required by the United States for its own purposes.

"While exact estimates cannot yet be made, it is hoped that during the next twelve months Canada can supply the United States with between \$200,000,000 and \$300,000,000 worth of such defence articles. This sum is a small fraction of the total defence programme of the United States, but many of the articles to be provided are of vital importance. In addition, it is of great importance to the economic and financial relations between the two countries that payment by the United States for these supplies will materially assist Canada in meeting part of the

cost of Canadian defence purchases in the United States.

"In so far as Canada's defence purchases in the United States consist of component parts to be used in equipment and munitions which Canada is producing for Great Britain, it was also agreed that Great Britain will obtain these parts under the Lease-Lend Act and forward them to Canada for inclusion in the finished articles.

"The technical and financial details will be worked out as soon as possible in accordance with the general principles which have been agreed upon between the President and the Prime Minister."

Immediate purpose of the Declaration

The immediate purpose of the joint Declaration is set out in its first paragraph, which might be described as the preamble. It states that the President and I discussed measures by which the most prompt and effective utilization might be made of the productive facilities of North America. Let me emphasize the two words: prompt and effective. They indicate that, while recognizing the short-run necessity of speed, the vital importance of the time factor, we have not lost sight of the long-run necessity of the utmost efficiency in the organization of our war production.

The preamble goes on to recognize a twofold object in ensuring this prompt and effective utilization of the productive facilities of both countries. Not only does it envisage the extension of the scope of our joint defence arrangements to the economic

sphere, but it recognizes the advantages of co-ordinating the use of the resources of both countries as a means of speeding up and increasing the volume of aid to Britain from this continent.

Let me state this in another way. The Hyde Park Declaration is more than an extension of the Ogdensburg Agreement for hemispheric defence. It is also a joint agreement between Canada and the United States for aid to Britain.

The basic principle: Cooperation in production

The basic principle underlying the agreement is set out in the second paragraph. It is a recognition of the fact that each country has special advantages for the production of certain war materials which are lacking in the other, and that both countries will benefit by each producing for the other, as well as for itself, the defence articles which it is best able to produce. It constitutes an acceptance of the economic inter-dependence of Canada and the United States as the foundation of the programme of war production in both countries. It represents the application to war production of the principle, recognized by Canada and the United States in the trade agreements of peace time, that the exchange of goods is of mutual benefit.

The third paragraph of the Declaration is an amplification of the basic principle of the agreement. It recognizes, on the one hand, the vital necessity, for Canada's war programme, of obtaining certain defence articles from the United States; on the other hand, it indicates the possibilities of the speedy expansion of Canadian production of other defence

articles, munitions and strategic materials. It is not without significance that aluminium and ships are specified by name in the declaration.

Practical operation of the agreement

One question which may arise in connection with the Hyde Park Declaration is: how can Canada spare to the United States any defence articles or munitions? Surely, it will be said, all our war production is needed either for Canada or for Britain! The answer is that we have advanced so far in the production of certain articles that expansion beyond British and Canadian needs can be readily accomplished. That is true of certain types of small arms, guns and ammunition, certain explosives and chemicals, certain armed fighting vehicles, aluminium and certain other metals and materials, merchant ships and naval vessels of the type we have been building, namely, corvettes and mine-sweepers. There are in addition certain types of clothing and textiles, certain leather, rubber and timber products, and certain secret devices in which Canada could probably make an important contribution, if these were desired. On the other hand, the production of engines for aircraft in Canada would be a slow process, costly both in time and in those types of skilled labour and specialized equipment of which no surplus exists. Moreover, this is a field in which not one but many types are needed to fill the varied demands and improvements in designs that are constantly occurring.

The fact that Canadian war production is so well organized in many fields as to enable Canada to meet speedily many United States requirements is a high tribute to Canadian industry and Canadian labour.

Alleviation of the Exchange problem

In the Declaration itself a rough estimate was made of the value of the defence articles which it is hoped Canada will be in a position to supply to the United States in the next twelve months. The estimate is between \$200,000,000 and \$300,000,000 worth. We may be able to do better than this, but obviously detailed negotiations will be necessary with the appropriate purchasing departments or agencies of the United States Government, in order to determine how best they can use the surplus capacity, existing and potential, of Canadian industry. The immediate significance to Canada of the sale of these defence articles is, of course, the provision of the United States dollars to help us in paying for Canada's essential war purchases in the United States.

While these United States purchases will assist us very materially in meeting our deficit, they alone will not solve the whole problem. A further important contribution to its solution is contained in another paragraph of the Declaration which provides that Canadian purchases in the United States of materials or components to be used in equipment and munitions being produced by Canada for Britain will be made available to Britain under the terms of the Lease-Lend Act. Hitherto it has been necessary to Canada to find United States dollars to pay for these purchases on British account. These purchases have materially added to the growing deficit in our balance of trade with the United States.

The combination of United States purchases in Canada and the lease-lending of defence articles for Britain will go a very long way toward the solution

of Canada's acute exchange problem. It is, however, not anticipated that the whole deficit will be covered in this way. Essential Canadian purchases in the United States will still exceed United States purchases in Canada. There would, therefore, appear to be little prospect of relaxing any of the existing foreign exchange conservation restrictions without causing a new deficit which would imperil Canada's war effort.

The final paragraph of the Declaration provides for the working out of the technical and financial details as soon as possible in accordance with the general principles set out in the Declaration itself. Officials of the two governments are at present engaged upon the task of working out these details. Until that task is completed it will not be possible to say exactly what Canada will supply the United States or what the United States will supply Canada. I have already indicated certain articles which it is anticipated will be included in the list to be supplied by Canada.

Significance of the Declaration

Hon. members will, I am sure, be more interested in the broad significance of the Hyde Park Declaration than in its technical aspects.

Its most immediate significance is that, through the co-ordination of war production in both countries, it will result in the speeding up of aid to Britain by the United States and Canada. As a result of the better integration of North American industry, the proposed arrangement will, through increasing total production, have the further effect of increasing the

total volume of aid to Britain. It will have a corresponding effect upon Canada's war effort. Full utilization of the production facilities we have built up, and specialization on those things which we are best fitted to produce, will increase both our national income and our own armed strength, as well as increasing our capacity to aid Britain.

As I have already said, the agreement will go a long way towards the solution of the exchange problem and, in this way, will remove one of the financial obstacles to the maximum war production programme of Canada and the United States. We, in Canada, have reason to be gratified at the understanding shown by the President and by the Secretary of the Treasury, of Canada's difficult exchange problem. We may, I am sure, feel an equal confidence that in the working out of the detailed technical and financial arrangements, Canadian officials will find the same generous measure of understanding and the same spirit of cooperation.

The Economic Corollary of Ogdensburg

I have spoken thus far of the immediate significance of the Declaration, of the effect it will have in speeding up aid to Britain in the critical months ahead, and of its importance in assisting us to meet our exchange problem. But beyond its immediate significance the Hyde Park Declaration will have a permanent significance in the relations between Canada and the United States. It involves nothing less than a common plan of the economic defence of the western hemisphere. When we pause to reflect upon the consequences, in Europe, of the failure of the peace-loving nations to plan in concert their common

defence, while yet there was time, we gain a new appreciation of the significance for the future of both Canada and the United States of the Ogdensburg Agreement and of this new Declaration which might well be called the economic corollary of Ogdensburg.

For Canada, the significance of the Hyde Park Declaration may be summarized briefly as follows: first, it will help both Canada and the United States to provide maximum aid to Britain and to all the defenders of democracy; second, it will increase the effectiveness of Canada's direct war effort; and finally, through the increased industrial efficiency which will result, it will increase our own security and the security of North America.

It is appropriate at this point to emphasize the fact that, while the agreement will increase the effectiveness of our war effort and our assistance to Britain, the self-imposed burden upon the Canadian people will nevertheless remain as great as ever. The sacrifices which we are called upon to make will not be reduced by the Hyde Park Declaration, but the results achieved by our sacrifices will, we believe, be considerably greater. At the same time, the risks of delays and breakdowns will be materially reduced. The utmost effort of the Canadian people is more than ever needed in the present phase of this terrible struggle; but in making that effort we shall have, as the result of the agreement, the added satisfaction of knowing that we are making a greater contribution than otherwise would be possible to the cause of freedom.

Foundations of a New World Order

In referring to the passage of the Lease-Lend Act, I expressed in this house the view that "Canada's example, as a nation of the new world, actively participating to the utmost limit in the present struggle, has also had its influence in arousing the people of the United States to their present realization that freedom itself is at stake in this war."

Unhesitatingly, to-day, I would go one step farther and would say that the example given by Canada has, I believe, aroused the admiration of our neighbours and made them ready to accept this new partnership.

Last November, I said to hon. members of this house that the link forged by the Ogdensburg Agreement was no temporary axis, formed by nations whose common tie was a mutual desire for the destruction of their neighbours. The Hyde Park Declaration is, I believe, a further convincing demonstration that Canada and the United States are indeed laying the enduring foundations of a new world order, an order based on international understanding, on mutual aid, on friendship and good will.