

Winning the Peace:
Canadian Economic and Political Security, 1943-1948

by

Philippe Lagassé

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Abstract

This dissertation develops a novel concept of national economic security by adapting the idea of national security devised by Barry Buzan. While retaining Buzan's notion that states are threatened militarily, politically, socially, and ecologically, the new framework proposes that states also face economic threats to their security and that these threats target a specific component of the state, the economic base. Recognizing this economic aspect of national security, it is argued, provides a fuller understanding of national security.

The dissertation applies its framework to the case of Canada between 1943-1948. In line with Buzan's notion of national security, it is shown that Canadian decisionmakers perceived a political threat to their state. When applying the framework developed in this dissertation, it is further demonstrated that decisionmakers identified purely economic threats to the Canadian state as the Second World War came to an end. Decisionmakers feared that mass inflation threatened to push Canada's postwar economy into a severe recession, as happened in the aftermath of the First World War. Were a severe economic downturn to occur, furthermore, decisionmakers feared that Canadians would abandon Canada's traditional ideologies of liberal-democratic capitalism in favour of a socialist form of government. Were either of these fears realized, Canada win the war but losing the peace.

To guard against these outcomes, the government of William Lyon Mackenzie King implemented a set of postwar reconstruction polices designed to protect the Canada's peacetime economy against a severe recession and preserve the public's fragile faith in the free market. Rather than merely moving Canada back to a peacetime

economy, it is proposed that the King government's reconstruction policies were fashioned to protect Canada's national economic and political security. The dissertation then traces the implementation of the King government's reconstruction measures from the end of the Second World War to 1948. It is shown that, despite a number of setbacks and difficulties, the government's reconstruction policies met their objectives by protecting the postwar Canadian economy and the public's acceptance of the re-established free market. Accordingly, the dissertation concludes that the government's reconstruction policies were instrumental in winning the peace for Canada.

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Introduction

Canadian Economic and Political Security, 1943-1948

Economic issues occupy a controversial place in the study of national security. Though realist, neo-realist, neo-liberal, and constructivist scholars of international relations acknowledged that states pursue economic interests, and that they seek to protect or enhance their economic standing, scholars disagree over whether states treat the protection their economies or resources as matters of national security. Economic security skeptics argue that states cannot defend their economies in a fashion that resembles the protection of their territory, interests, or sovereignty, the traditional concerns of state security. National economies, they contend, are too risk-prone and fluid to be defended or threatened. Economic security adherents, on the other hand, argue that national economies are essential components of states and that, as such, states do work to protect and defend their economies. For adherents, the history of modern international relations is filled with examples of economic competition, economic warfare, and the defence of national economies by states. Because adherents disagree about exactly how state's defend their national economies and precisely how states are threatened economically, however, the debate is at an impasse.

To help move this debate forward, this dissertation addresses two research questions:

- Are states threatened economically?
- If so, how are they threatened economically, and how do we recognize when economic threats to states are addressed as national security issues?

To answer these questions, the dissertation first adapts, then applies, a national security framework developed by Barry Buzan in *People, States and Fear*.¹ For Buzan, national security involves the protection of the state's essential components. These components are the idea of the state, the institutions of the state, and the physical base of the state. He also shows that these elements are threatened in five ways: militarily, politically, ecologically, socially, and economically. According to Buzan, states are only threatened economically when economic conditions undermine other aspects of their national security, such as their political or military security. He thus rejects the possibility that states face purely economic threats.

While this dissertation accepts Buzan's notion that states face political-economic and military-economic threats, it questions his claim that states do not encounter purely economic threats. To show that states do face purely economic threats, the dissertation expands his national security framework. The expanded framework identifies a fourth component of the state not named by Buzan, the economic base of the state. It is argued here that the economic base of the state is comprised of national income and wealth, human capital, and productivity. In addition, the expanded framework demonstrates that the economic bases of states are threatened by uniquely economic threats. The framework also broadens Buzan's framework to include an appreciation of the structural, internal, and indirect economic and non-economic threats that states face. By expanding Buzan's conception of national security, the dissertation presents a more comprehensive understanding of national security, and national economic security in particular.

¹ Barry Buzan, *People, States and Fear* (Boulder: Lynne Rienner, 1991).

In expanding Buzan's concept of national security, this dissertation relies in part on Ole Waever's notions of securitization and desecuritization.² For Waever, problems and threats encountered by states become matters of national security when elites securitize them. Elites engage in securitization when they perform linguistic acts that identify problems and threats as matters national security. Securitization also involves elites taking on exceptional powers to address those threats national security named in linguistic acts. Exercising exceptional powers indicates that the threats identified by elites are not mere political problems. Instead, recourse to exceptional powers reinforces elite statements that the problems they identify are matters of national security, since only such issues warrant the granting and use of exceptional powers. Desecuritization, it follows, involves either the abandonment of exceptional powers exercised to deal with a threat, or the abandonment of securitizing discourses on the part of elites. It takes problems previously dealt with as matters of national security and returns them to the political realm.

Drawing on Waever, the dissertation's theoretical framework argues that, if elites are shown to securitize economic problems through linguistic acts, and if exceptional powers are exercised to deal with economic threats to states, then states are threatened economically and there is a purely economic component to national security. Similarly, states can be shown to no longer face economic threats if exceptional powers are abandoned or if economic problems previously treated as threats are returned to the realm of politics.

² Ole Waever, "Securitization and Desecuritization," in Ronnie D. Lipschutz, ed. *On Security* (New York: Columbia University Press, 1995).

In order to demonstrate the empirical validity of this framework, it must be applied to and tested against a case study. The theoretical framework developed in this dissertation is applied to, and tested against, the case of Canada between 1943-1948. In applying its framework to this case, the dissertation poses and answers a second set of research questions:

- Did Canada face economic threats between 1943-48?
- If so, how and why did Canadian decisionmakers respond these threats?

In line with Buzan's and Waever's formulations, an application of the framework shows that Canadian decisionmakers perceived and securitized political-economic threats to the idea of the Canadian state between 1943-1948, and that the government exercised exceptional powers to devise and implement policies to address these threats.

Specifically, the dissertation demonstrates that decisionmakers perceived and securitized threats to Canadian liberal-democratic capitalism, the foundational ideologies making up the idea of the Canadian state, and that postwar reconstruction policies underwritten by emergency powers were partially designed to counter these threats.

In accordance with the dissertation's expanded conception of national security, moreover, an application of the framework reveals that Canadian decisionmakers perceived and securitized purely economic threats to the economic base of the Canadian state. To be exact, the dissertation demonstrates that decisionmakers perceived and securitized economic threats to Canadian national income and wealth, employment levels, and industrial productivity --all critical components of the economic base-- and that postwar reconstruction policies enforced by emergency powers were precisely

designed to confront these threats. This finding validates the theoretical assumptions of the dissertation's expanded conception of national security, as well as its novel presentation of national economic security.

The case of Canada between 1943-1948 was chosen for its hardness. The historical literature is near unanimous that Canada enjoyed a period of unprecedented economic prosperity and optimism at this time. Showing that there is alternate historical account, that Canada faced economic and political-economic threats during this period, demonstrates the strength of the framework, since a more self-evident case could be seen as a rare exception of the framework's validity. By choosing an atypical, hard case, the dissertation demonstrates the explanatory value, analytical insight, and wide applicability of its theoretical framework.

I. Thesis and Dissertation Type

The historical-empirical thesis of this dissertation is that the King government's postwar reconstruction policies were designed in part to address economic and political-economic threats to the Canadian state. These threats were identified and securitized by high-ranking decisionmakers, and the federal executive exercised emergency powers both to confront these threats and reduce Canada's vulnerability to them. When decisionmakers recognized that these economic and political-economic threats were no longer endangering the Canadian economic base and the idea of the Canadian state, the threats were desecuritized and returned to the political realm, whereupon the executive branch relinquished the emergency powers it had requisitioned to address them.

The theoretical thesis is that states face economic threats to their security, and that economic threats target a specific component of the state, the economic base. Buzan's

argument that states face political-economic threats to their security, and that these threats target the idea of the state, is also accepted and defended.

Following the political science dissertation types outlined by Stephen Van Evera, this is an “historical explanatory” dissertation. Dissertations of this type apply an academic theory to “explain the causes, pattern, or consequences” of a historical case.³ This type of dissertation is valuable since, as Van Evera notes, “If theories are never applied, then what are they for? Theories have value only if they are eventually put to work to explain, assess, or prescribe.”⁴ In applying the national security framework developed in chapter 2, it is the aim of this dissertation to assess and explain the relationship between Canadian reconstruction policy and economic security policy between 1943-1948. In assessing and explaining this relationship, furthermore, the dissertation aims to demonstrate the empirical validity of its framework, which serves to move forward the debate about the place of national economies in the national security policies of states.

II. Originality

The originality of this dissertation is threefold. First, as discussed at length in the first chapter, the framework develops a unique synthesis of what constitutes national economic security and of how states are threatened economically. Existing studies of national economic security concentrate on how the international economic system affects

³ Stephen Van Evera, *Guide to Methods for Students of Political Science* (Ithaca: Cornell University Press, 1997), 91-92.

⁴ *ibid.*, 92.

the economic strength and prosperity of states.⁵ The refined national security framework proposed by this dissertation provides an original understanding of what constitutes national economic security and how the economic security of states is threatened. Rather than focusing solely on the affects of external risks that arise from the international economic system, the dissertation proposes a broader concept of economic security, one that appreciates both the internal and external economic threats state face. It also proposes that national economic security involves the protection of a specific object, the economic base of the state.

Second, the dissertation is the first work to analyse Canadian economic and political-economic security between 1943-1948. While several works have touched on other aspects of Canadian national security during this period, none has explored its economic dimensions.⁶ By providing an analysis of Canadian political-economic security

⁵ For an overview of existing conceptions of economic security, see chapter 2 and Christopher M. Dent, "Economic Security," in Alan Collins, ed. *Contemporary Security Studies* (Oxford: Oxford University Press, 2007), 204-221.

⁶ In *Canada and the Age of Conflict*, vol.2 (Toronto: University of Toronto Press, 1981), C.P. Stacey explored the formulation of Canadian foreign and defence policy during the last years of the King ministry. His book did not address Canadian any political or economic dimensions of security during this period. James Eayrs' *In Defence of Canada: Peacemaking and Deterrence* (Toronto: University of Toronto Press, 1972) examined the evolution of Canadian defence and international security policy from the mid-1940s to the late 1950s. Among the topics addressed by Eayrs were the organization of the post-Second World War Canadian military force structure, the development of the Canada-United States continental defence relationship, and Canadian policy towards the United Nations, the Commonwealth, and the atomic bomb. Like Stacey, Eayrs' work concentrated on military security. Denis Smith's *Diplomacy of Fear: Canada and the Cold War, 1941-1948* (Toronto: University of Toronto Press, 1988), meanwhile, explored Canada's relations with the United States and the Soviet Union during the early years of the Cold War. Economic questions were peripheral to his analysis.

Greg Donaghy's edited volume, *Canada and the Early Cold War, 1943-1957* (Ottawa: Department of Foreign Affairs and International Trade, 1998), addressed several aspects of Canadian security policy in the aftermath of the Second World War. In the book, Angelika Sauer examined Canada's policy towards Germany between 1943-1948, Robert Bothwell analyzed Canadian policy towards Asia, John English critically evaluated Ottawa's policies towards the United Nations, and J.L. Black surveyed Canadian-Soviet relations between 1946-1951. The volume also included Denis Stairs' analysis of Canadian foreign policymaking during the early Cold War, Stéphane Roussel's study of the ideological and communitarian foundations of the North Atlantic Treaty Organization, and Hector Mackenzie's examination of Canadian international economic policy between 1945-1951. The chapters written by Black and Roussel indirectly addressed Canadian political security, though neither discussed the issue in a systematic fashion. Similarly, while Mackenzie's chapter provided an important overview of Canada's

This dissertation thus distinguishes itself from existing studies of Canadian national security during this period. The dissertation is also original on account of a third factor. It is the first in-depth, academic exploration of Canadian postwar reconstruction policy. Though a number of authors have written about Canada's wartime economic policies and postwar fiscal policies, a history of postwar reconstruction has not yet appeared.⁷ This dissertation fills this gap.

international economic concerns, his study did not explicitly treat economic policy as a security problem and did not discuss internal economic developments.

Leo Panitch's edited work, *The Canadian State: Political Economy and Political Power* (Toronto: University of Toronto Press, 1977), offered a critical analysis of Ottawa's efforts to enshrine capitalism as the ideology of the Canadian state following the Second World War. Particularly insightful are Reg Whitaker's chapter on the Canadian tradition of Tory capitalism and Alvin Finkel's examination of the King government's cooption of social and welfare reform as a means of protecting Canada's prewar political-economic ordering. Both chapters provide essential insights into the ideological underpinnings of the Canadian state from Confederation to 1945. Familiarity with their arguments is vital to the study of Canadian political-economic security between 1943-1948. Yet, since neither author treats the protection of Canada's dominant ideology as a security issue, and because both authors adopt a Marxist perspective, their works do not count as studies of Canadian political-economic security. Instead, they belong to a group of works whose aim was to expose the insidious relationship between owning-class interests and economic policy in Canada.

Another work that indirectly addresses Canadian political-economic security between 1943-1948 is Reg Whitaker and Gary Marcuse's *Cold War Canada: The Making of a National Insecurity State, 1945-1957* (Toronto: University of Toronto Press, 1996). A critical analysis of Canadian reactions to ideological confrontation between the superpowers, the book explored such varied topics as the dynamics of Canadian society during the 'red scares' of the early Cold War, Ottawa's anti-communist surveillance and counter-intelligence programs, and the development of Canada's postwar defence policy. Their work provides an important survey of the horizon against which the King government securitized the protection of the idea of the Canadian state between 1943-1948. However, the book was not meant to be a study of Canadian political-economic security. Instead, the authors sought to question how the culture of the Cold War led policymakers and citizens to accept a diminution of certain civil liberties and to favour certain foreign, defence, and intelligence policies above others.

⁷ J.L. Granatstein's *Canada's War: The Politics of the Mackenzie King Government, 1939-1945* (Toronto: University of Toronto Press, 1975) provided an overview of Ottawa's fiscal and economic policies during the Second World War. Among the issues addressed by Granatstein are war financing, stabilization, and the beginnings of reconstruction planning. The book finishes in 1945, precluding a discussion of reconstruction policy. C.P. Stacey's *Arms, Men and Government: The War Policies of Canada, 1939-1945* (Ottawa: Queen's Printer, 1970) offered an in-depth discussion of Canadian economic mobilization, including the conversion of industry from peacetime to wartime purposes. His work also ends in 1945 without addressing postwar issues. Another book that limits its scope to the Second World War is Jeffery Keshen's *Soldiers, Sinners and Saints* (Toronto: University of British Columbia Press, 2004). A provocative study of the Canadian home front, Keshen's work outlined how Canadians perceived and experienced the King government's wartime economic policies. He also provided a perceptive account of why many Canadians became disillusioned with the dominant ideologies of the Canadian state during the Second World War, and of how the King government dealt with the disillusionment up to the end of the war. David W. Slater's *War, Finance and Reconstruction: The Role of Canada's Department of Finance, 1939-1946* (Ottawa: Department of Finance, 1995) is a meticulous survey of Canadian economic and fiscal

policy during the Second World War. The book is essential for those seeking to understand the relationship between war financing, taxation, social welfare policies, and economic stabilization measures, but the work suffers from two drawbacks. By focusing exclusively on the department of finance, Slater marginalized the critical role played by the department of munitions and supply in setting Canada's wartime economic policies. Second, Slater only seriously addressed two components of reconstruction, postwar tax policy and the negotiation of tax revenue sharing agreements between the federal and provincial governments. Reconstruction dealt with far more issues than taxation and revenue sharing.

In his *The Government Generation: Canadian Intellectuals and the State, 1900-1945* (Toronto: University of Toronto Press, 1986), Douglas Owsram also considers the role of finance department officials in determining Canadian wartime economic policy. Owsram's book highlighted how the economic philosophy of Keynesianism influenced a cohort of economists, notably W.A. Mackintosh and R.B. Bryce, who shaped the King government's thinking about social welfare policy, the economics of war, and postwar reconstruction. Like Slater, however, Owsram's work is not a history of reconstruction policy, properly understood. His was an account of how and why certain individual officials from the finance department and Bank of Canada sought to direct the King government's postwar economic policy. Since, in the end, these individuals had little influence over the King Cabinet, Owsram's work fails to provide an account of the intellectual foundations of Canadian reconstruction. Harvey J. Perry's *Taxes, Tariffs, and Subsidies: A History of Canadian Fiscal Development* (Toronto: University of Toronto Press, 1955), meanwhile, deals only with postwar taxation policy, which as noted above, was only one component of reconstruction.

Christopher Waddell's doctoral thesis, *The Wartime Prices and Trade Board: Price Control in Canada in World War II* (Ph.D Dissertation, York University, 1981), provides an overview of the operations of the Wartime Prices and Trade Board (WPTB) between 1939-1946. The thesis examined WPTB practices and advertising campaigns, as well as the Board's place in Ottawa's wartime and immediate postwar economic policies. Waddell also explored the influence and personalities of the Board's senior officials, including Donald Gordon, who served as the WPTB chairman between 1941-1947. Though a valuable analysis of the WPTB, Waddell's thesis falls short in two respects. Above all, the thesis fails to fully investigate the links between the WPTB's stabilization measures and the King government's reconstruction goals. Stabilization is treated as an end in and of itself, rather than a policy that served larger reconstruction objectives. Next, Waddell argues that the King government's interest in stabilization effectively ended in early 1947. This is incorrect. Ottawa's stabilization concerns peaked in mid-1947 and continued well into late 1948. In choosing to end his study of stabilization policy and the WPTB in 1946, Waddell omitted a significant part of the Board's and reconstruction's history.

Robert Campbell's *Grand Illusions: The Politics of the Keynesian Experience in Canada, 1945-1975* (Peterborough: Broadview, 1987) made the case that reconstruction was designed to restore a liberal-democratic capitalist political-economic order in Canada after the Second World War. In this sense, the book is an important resource for understanding the motivations behind reconstruction policy. Yet Campbell failed to provide a detailed account of how reconstruction was devised and how it unfolded. Nor did he back his argument with sufficient evidence from archival sources. As a result, *Grand Illusions* is not a history of reconstruction, but a survey of the ideological currents propelling Canada's postwar economic policies.

Reg Whitaker's *The Government Party: Organizing and Financing the Liberal Party of Canada, 1930-1958* (Toronto: University of Toronto Press, 1977) is a history of the factors that led to the Liberal Party's dominance of Canadian federal politics during the mid-twentieth century. Echoing the arguments made in his more critical works, Whitaker showed that postwar reconstruction policy was partially formulated to secure the reelection of the federal Liberals, and the preservation of Canada's traditional political-economic ordering, at a time when Canadians were prepared to question the status-quo. Like Campbell's, Whitaker's analysis sheds light some of the motivations that lay behind reconstruction, though it does not qualify as an actual history of reconstruction.

Finally, *Canada Since 1945: Power, Politics, and Provincialism* (Toronto: University of Toronto Press, 1981), written by Robert Bothwell, Ian Drummond, and John English, provides a brief overview of reconstruction. The book offered what became the standard account of reconstruction and the Canadian economic developments after the Second World War. According to *Canada Since 1945*, reconstruction was a relatively straightforward process that encountered few obstacles. This version of events was also presented in *C.D. Howe: A Biography* (Toronto: McClelland and Stewart, 1979), a biography of Canada's

III. Scope

The dissertation's scope is determined by the application of its theoretical framework to its case. While thinking about the demobilization of veterans began as early as 1939, widespread concern about and detailed planning of postwar reconstruction only began in 1943. This was also the year that securitizing discourses about Canada's postwar economy and political-economic ordering appeared, making it the logical starting point for a study of postwar national economic and political-economic security. The dissertation ends in 1948 because this was when the securitization of postwar reconstruction ended. 1948 also marked the end of William Lyon Mackenzie King's ministry. King's exit marked an important transition in Canadian history and is often used as a marker separating historical periods.

While the focus of the dissertation is on the five year period between 1943-1948, it is necessary to discuss economic events in Canada following the First World War and during the Great Depression. Memories and interpretations of these periods were vital in shaping perceptions of the threats Canada faced in moving from a wartime to peacetime economy after the Second World War. Indeed, Canadian reconstruction and national economic security policy between 1943-1948 cannot be understood without reference to the Great Depression and the aftermath of the First World War. Though 1945 was a turning point in Canadian and world history, the realities of decisionmakers and members of the public at this time were informed by their formative past experiences.

Several topics are purposefully omitted from this analysis. Detailed discussions of postwar housing, demobilization, industrial, and monetary policy are omitted because

minister of reconstruction written by Bothwell and William Kilbourn. This dissertation counters this incomplete account by offering a fuller history of reconstruction, its aims, and its effects.

they are either addressed by the existing literature, or are secondary to the dissertation's main research questions. While each of these areas influenced, and contributed to the goals of, postwar reconstruction policy, devoting a significant amount of space to any of them would draw attention away from the discussion of Canadian economic security.

A discussion of Canadian military security between 1943-1948 is excluded because, as discussed, it has been addressed by the existing literature, and because it is beyond the research questions. One of the aims of this dissertation is to show that national security involves more than an armed defence against military threats. A discussion of Canadian defence policy during this period would dilute this argument. If national security involves more than military and defence matters, then a study of the economic aspects of Canadian national security between 1943-1948 need not address Canadian military security during this period.

An analysis of Canadian international economic policy between 1943-1948 is excluded because it has been extensively addressed in the literature.⁸

⁸ R.B. Bryce first-hand history of Canada's wartime and early postwar international economic policy, *Canada and the Cost of World War II* (Montreal: McGill-Queen's University Press, 2005), described in great detail the events and decisions surrounding Canada's wartime economic relations with the United States, Canadian financial assistance to the United Kingdom during and after the war, and the negotiation of the Bretton Woods accords and the General Agreement on Tariffs and Trade. A.F.W. Plumptre's *Three Decades of Decision: Canada and the World Monetary System, 1944-75* (Toronto: McClelland and Stewart, 1977) provided a similar, but less detailed, first-hand account of these issues. Michael Hart's *A Trading Nation: Canadian Trade Policy from Colonialism to Globalization* (Vancouver: University of British Columbia Press, 2002) also addressed these topics. Hart analysed the Canadian government's aims in negotiating a stable international monetary system, in pursuing freer trade, and in lending financial aid to the United Kingdom and other allies. While his survey is briefer than Bryce's and Plumptre's, it benefited from a distanced detachment.

In *American Dollars, Canadian Prosperity* (Toronto: Samuel-Stevens, 1978), J.L. Granatstein and R.D. Cuff argued that postwar international economic developments forced Canada into the United States economic orbit. They make this case by tracing the events and decisions surrounding the Canada's balance of payments crisis with the United States in 1947-1948 and the creation of Washington's European Recovery Plan. Brian Muirhead's *Development of Postwar Canadian Trade Policy: The Failure of the Anglo-European Option* (Montreal: McGill-Queen's University Press, 1992) challenged Granatstein and Cuff's account. He demonstrates that closer economic ties with the United States was the only avenue available to Canada in the aftermath of the Second World War. Because the balance of payments crisis contributed to Canada's internal economic problems at this time, it is discussed in the dissertation.

Hector Mackenzie has written a number of articles and book chapters describing the importance attributed to international economic matters by the Canadian government during and after the Second World War.⁹ More than any others, his studies make clear that Ottawa believed that Canada's future economic stability and prosperity were tied to the establishment of freer international trade, British and European economic recoveries, and the maintenance of a regulated international monetary system. Reading Mackenzie's work through the prism of the framework presented in this dissertation would show that international economic negotiations and issues had a significant impact on Canadian economic security between 1943-1948. But little would have been added to the existing studies if the dissertation applied its framework to Mackenzie's findings. His analyses have made the case. Applying the framework to them would merely recast his arguments in theoretical language.

Focusing on external threats to Canada's economic security, moreover, would take attention away from the internal economic threats to the Canadian state. Since the framework seeks in part to prove the existence of internal economic threats to the state, it concentrates on these.

However, the dissertation does not wade into the debate surrounding the inevitability of Canada economic rapprochement with the United States between 1945-1948.

⁹ Hector Mackenzie, "Sinews of War and Peace: The Politics of Economic Aid to Britain, 1939-1945," *International Journal* 54 (Fall 1999); Hector Mackenzie, "The ABC's of Canada's International Economic Relations, 1945-1951," in Greg Donaghy, ed. *Canada and the Early Cold War, 1943-1957* (Ottawa: Department of Foreign Affairs and International Trade, 1998); Hector Mackenzie, "The White Paper on Reconstruction and Canada's Postwar Trade Policy," in Greg Donaghy, ed. *Uncertain Horizons: Canadians and Their World in 1945* (Ottawa: Canadian Committee for the History of the Second World War, 1997).

IV. Sources and Data Selection

In building and presenting its case study, the dissertation relies on evidence from three types of sources: archival documents, government publications, and secondary sources. In choosing which archival documents to examine, a top-down method was followed. Minutes from federal Cabinet meetings were read first. Reading the Cabinet minutes revealed which departments, ministers, and officials were most prominent in setting and implementing reconstruction policy. The minutes also highlighted which concerns, obstacles, and problems the King government identified with the postwar economy and the course of reconstruction. With this information in hand, the next step was to examine the documents of the departments, ministers, and officials most directly involved in setting and implementing reconstruction policy. This led to an extensive examination of files from the departments of finance, labour, munitions and supply, and reconstruction, and from the Privy Council Office and the Wartime Prices and Trade Board. In addition, the personal records of William Lyon Mackenzie King, C.D. Howe, J.L. Ilsley, Humphrey Mitchell, Donald Gordon, and W.C. Clark were surveyed for documents related to reconstruction and the postwar economy.

After the archival documents were collected, government publications related to reconstruction and the postwar economy were sought out. Among the publications found were official WPTB newsletters and pamphlets, department of reconstruction histories and analyses, the House of Commons debates, and Canada Year Books from between 1943-1950. These publications provided official statistics and figures surrounding reconstruction and the postwar economy. They also illustrated how the government

communicated with the Canadian public, which is critical for identifying acts of securitization.

Secondary sources touching on reconstruction and the postwar economy were collected and read as well. These sources included biographies of the major figures of Canadian federal politics and economic policy between 1943-1948, economic and political histories of Canada, books and articles on Canadian wartime and early postwar industrial relations, and analyses of Canada's ideological traditions and histories of the Liberal Party and Cooperative Commonwealth Federation.

Secondary sources are cited when discussing events that happened before 1943, when presenting an account of the development of reconstruction policy between 1943-1945, and when a secondary source cites a relevant primary source. Archival documents and government publications are relied on when providing evidence of acts of securitization, when presenting novel interpretations of historical events or motives, and when giving an account of reconstruction between 1945-1948.

V. Chapter Overviews

This dissertation is made up of five chapters. Chapter 1 presents the dissertation's theoretical framework. Following a survey of competing schools and notions of national security, the chapter refines Barry Buzan's conception of state security in order to offer a novel understanding of national security and national economic security, in particular. The chapter argues that states are made up of four components, a physical base, an economic base, ideas (nationalities and organizing ideologies), and institutions; that these components face military, political, social, ecological, economic, political-economic, and

military-economic threats; that these threats can be internal, external, intentional, and structural in origin; and that governments can address these threats by confronting them directly or by reducing their state's vulnerability to them.

Chapter 2 applies this framework to Canada between 1943-1945. It argues that memories of the First World War and Great Depression led many Canadians to question Canada's organizing ideologies of liberal-democratic capitalism, and that decisionmakers perceived and securitized this questioning as a political-economic threat. The chapter also argues that fears of a postwar economic downturn reminiscent of the First World War and Great Depression led decisionmakers to identify and securitize an economic threat to the postwar Canadian economic base. To counter these threats, and reduce the Canadian state's vulnerability to them, three competing sets of reconstruction policies were devised: reconversion, stabilization, and reform. The chapter ends by discussing the characteristic, compatibilities, and incompatibilities among these three sets of reconstruction policy.

Chapter 3 describes how reconversion and stabilization came to dominate reconstruction policy between 1943-1945. The chapter shows that, while reform policies were rhetorically popular with the King government, the actual content of its reconstruction policies reflected the views and concerns of the advocates of reconversion and stabilization.

Chapter 4 describes the implementation of reconstruction policy between August 1945 and December 1946. The chapter begins with an overview of the emergency powers and securitizing discourse the King government adopted to address the political-economic and economic threats perceived by decisionmakers. Next, the chapter examines

the challenges and successes the King government encountered as reconstruction progressed. It also shows how these challenges to reconstruction reinforced decisionmakers' fears and securitization of the political-economic and economic threats to Canada's organizing ideologies and economic base.

Chapter 5 discusses the implementation, and ultimate success, of reconstruction in 1947-1948. The chapter outlines how a new minister of finance accelerated the pace of reconstruction, how the King government reacted to a wave of public discontent with its stabilization policies, and how the progress of reconversion allowed Ottawa to desecuritize the political-economic and economic threats decisionmakers had perceived. The chapter ends with an account of how the remaining aspects of reconstruction and postwar economic policy were desecuritized and returned to the political realm.

Finally, the dissertation concludes with an overview of its theoretical framework and a summary of its case study findings.

Chapter 1

National Security and National Economies

National security, Arnold Wolfers argued in 1952, is an “ambiguous symbol.”¹ Despite its frequent usage and an expansive literature devoted to its study, a precise and widely accepted definition of the concept remains elusive. For some analysts national security is synonymous with national defence, the use or maintenance of armed forces to protect territory, goods, and interests.² To other analysts the term is wider, involving activities deemed essential to enhance the power of states and ensure the safety of its citizens.³ Still others maintain that national security is a cloak used by elites or special interests to advance hidden agendas.⁴ In light of these varied interpretations, the concept has resisted a precise definition; as with other ‘ambiguous symbols’, including power, justice and legitimacy, national security is a notion often referenced but rarely understood.

Equally contentious is the relationship between national security and economics, the focus of this dissertation. While scholars recognize the historic role that economic competition played in fuelling conflict between states and the links between national

¹ Arnold Wolfers, “‘National Security’ as an Ambiguous Symbol,” *Political Science Quarterly* 67 (December 1952).

² See Bernard Brodie, Michael D. Intriligator and Roman Kolkowicz, eds. *National Security and International Stability* (Cambridge, MA: Oelgeschlager, Gunn & Hain, 1983) and Michael H.H. Louw, ed. *National Security: A Modern Approach* (Pretoria: Institute for Strategic Studies, University of Pretoria, 1977).

³ Samuel P. Huntington, *The Soldier and the State* (Cambridge, MA: Harvard University Press, 1957), 1; Amos A. Jordan, et al. *American National Security* (Baltimore: Johns Hopkins University Press, 1999), 3.

⁴ Noam Chomsky, *For Reasons of State* (New York: New Press, 2003); Charles Beard, *President Roosevelt and the Coming of War in 1941: A Study in Illusions and Realities* (New Haven: Yale University Press, 1948).

treasuries and the maintenance of armed forces,⁵ debate continues about whether the economic concerns of states, and the internal economic conditions of states in particular, should be treated as national security issues. As with the national security debate writ large, the literature on the economic determinants of state security is fragmented. Though most scholars acknowledge that economic matters can have an impact on national security, no agreement exists about what constitutes ‘national economic security’.

This chapter examines the idea of national economic security. The chapter begins with a critical evaluation of four schools of national security thought --the traditional, mainstream, comprehensive, and broadened/critical-- and of how these schools understand the relationship between economics and state security. The chapter will then build on these existing theories to offer an alternative understanding of national economic security and a framework for analyzing national economic security policies. Lastly, the chapter will provide an overview of how this framework applies to the case of Canada between 1943-1948.

1.1) Schools and Theories of National Security⁶

Theories of national security are traceable to the earliest conceptions of the modern state. Seventeenth century philosopher Thomas Hobbes, for instance, developed a theory of state security that continues to resonate today. According to Hobbes, the sovereign authority of a state aims to provide two types of security. First, the sovereign protects individual citizens from each other, a function best described as ‘domestic

⁵ See Paul Kennedy, *The Rise and Fall of the Great Powers* (London: Fontana Press, 1989) and Ethan B. Kapstein, *The Political Economy of National Security* (Columbia: University of South Carolina Press, 1992).

⁶ For an overview of the security studies field, see Adam Collins, ed. *Contemporary Security Studies* (Oxford: Oxford University Press, 2007).

security'. The sovereign does this by enacting and enforcing laws. When two or more persons or parties are engaged in a conflict within state boundaries, the sovereign acts as an arbiter between the parties, using police powers to make arrests, dispensing recompenses or mandating punishments in accordance with state law.⁷ Understood in this way, the crux of the domestic security function is policing and law enforcement. Second, the sovereign aims to protect the state itself. It is this responsibility that came to be labelled 'national security'. Central to the idea of national security is that the state exists, that the state is more than a collection of individuals, and that the state has components, both material and immaterial, that are vulnerable to threats. Though this conception of the state has been questioned and altered by philosophers and scholars over the centuries, the basic Hobbesian idea of state security, and the distinction between national and domestic security, have endured.⁸ Similarly, though the terms 'nation' and 'state' are no longer considered synonymous, 'national security' and 'state security' are used interchangeably, as they are in this work.

In spite of Hobbes' continuing resonance, the concept of national security has been subject to a number of reconsiderations over the past sixty years. Due to advances in social scientific methodologies, changes in the nature of conflict, reconsiderations of the relationship between states and societies, and doubts about the morality of national security policy and the ontological status of the state, the meaning of national security has been problematized and reformulated by a myriad of scholars. Indeed, the meaning of 'security' itself has been called into question and recast by academics in various

⁷ Thomas Hobbes, *Leviathan* (Oxford: Oxford University Press, 1996), chapter 28, paragraph 11.

⁸ Barry Buzan, *People, States and Fear* (Boulder: Lynne Rienner Publishers, 1991) chapter 1.

disciplines.⁹ As a result of these conceptual and disciplinary introspections, the meaning of both national security and security in general are contested. These debates, moreover, have complicated efforts to clarify the relationship between economics and national security. Though various conceptions of 'economic security' have been recognized and developed, a thorough and multidimensional understanding of 'national economic security' has remained elusive. Nonetheless, it is here proposed that such an understanding of national economic security can be formulated by refining the findings and propositions of existing theories.

Before a refined conception of national economic security is presented, an overview of existing national security theories is in order. Four schools of national security studies have emerged since the late 1940s: traditional, mainstream, comprehensive, and broadened/critical. The strengths and weaknesses of each school are discussed below.

A) Traditional National Security Studies

Arnold Wolfers' aim in stating that 'national security is an ambiguous symbol' was not to discredit national security affairs as a field of study. The opposite was the

⁹ Among the efforts to reformulate the meaning of security are Emma Rothschild, "What is Security," *Daedalus* 24 (1995); David A. Baldwin, "The Concept of Security," *Review of International Studies* 23 (1997); David A. Baldwin, "Security Studies and the End of the Cold War," *World Politics* 48 (1995); Jessica Tuchman Mathews, "Redefining Security," *Foreign Affairs* 68 (1989); Barry Buzan, "Rethinking Security after Cold War," *Cooperation and Conflict* 32 (1997); Helga Haftendorn, "The Security Puzzle: Theory-Building and Discipline-Building in International Security," *International Studies Quarterly* 35 (1991); Edward A. Kolodziej, "Renaissance in Security Studies? Caveat Lector!," *International Studies Quarterly* 36 (1992); Edward A. Kolodziej, "What is Security and Security Studies?: Lessons from the Cold War," *Arms Control* 13 (1992); Lester B. Brown, "Redefining National Security," in Lester Brown, et al., *State of the World 1986* (New York: Norton, 1986); Jyrki Kakonen, "The Concept of Security –From Limited to Comprehensive," in Jyrki Kakonen, ed. *Perspectives on Environmental Conflict and International Relations* (London: Pinter Publishers, 1992); Simon Dalby, "American Security Discourse: The Persistence of Geopolitics," *Political Geography Quarterly* 9 (1990); Michael T. Klare, "Redefining Security: The New Global Schisms," *Current History* 95 (1996); T.C. Sorensen, "Rethinking National Security," *Foreign Affairs* 69 (1990).

case. Writing in the 1950s and 1960s, Wolfers' goal was to reexamine basic assumptions about the meaning of security and the policies that states execute to protect themselves. In so doing he hoped to expose fallacies in the national security discourse of his time. Against those who held that security was an objective state of affairs, Wolfers showed that security is a subjective perception that varies according to the circumstances and perceptions of particular states. Against those who posited that security is guaranteed by military strength alone, Wolfers highlighted the contribution of non-military policies to national security. And against those who argued that security is an absolute good, Wolfers demonstrated that security is a negative value gained at the expense of positive values.

Following Walter Lippman,¹⁰ Wolfers maintained that "a nation is secure to the extent to which it is not in danger of having to sacrifice core values, if it wishes to avoid war, and is able, if challenged, to maintain them by victory in such a war."¹¹ The core values of a state, according to Lippman and Wolfers, are national independence and territory. Accordingly, for Wolfers, "security rises and falls with the ability of a nation to deter an attack, or to defeat it."¹² This definition led Wolfers to conclude that national security varies, in an objective sense, according to the geography of a state, the military capabilities of competitors, and the level of military strength a state possesses. However, national security also varies in a subjective sense, according to national leaders' perception of a competitor's hostile intentions and the level and type of military forces needed to defeat or deter an attacker. Stated differently, national security is subjective

¹⁰ Walter Lippman, *U.S. Foreign Policy: Shield of the Republic* (Boston: Little, Brown & Co., 1943), 51-53.

¹¹ Arnold Wolfers, *Discord and Collaboration* (Baltimore: Johns Hopkins University Press, 1962), 150.

¹² *ibid.*

insofar as national security policies result from leaders' fear that core values are being threatened. The subjective character of national security implies that there is no obvious level of military strength that states must maintain to be objectively secure. If national leaders do not fear the intentions of their neighbours or competitors, then, rightly or wrongly, forces might not be built to defeat or deter the objective military capabilities of these same neighbours or competitors.¹³

The subjectivity of national security is further demonstrated by the fact that it can be rarely, if ever, guaranteed. Unless a state dominates the world,¹⁴ potential competitors will exist. As long as a competitor exists, a potential threat remains. Inherent in national security policies, therefore, is a degree of risk. Determining how much risk is tolerable is the responsibility of national leaders. These leaders make such decisions based on their subjective perceptions of threats to national core values. Leaders' choices, Wolfers observed, "will depend on a multitude of variables, including ideological and moral convictions, expectations concerning the psychological and political developments in the camp of the opponent, and inclinations of individual policy-makers."¹⁵

When debating what level of military capabilities is needed to meet threats with an acceptable degree of risk, leaders must also appreciate how their national security policies are perceived by others. Should a state strengthen its military capabilities to meet a potential threat, this strengthening may increase feelings of insecurity in other states. In turn, these other states may choose to strengthen their own military capabilities, increasing feelings of insecurity in the first state. This phenomenon, aptly titled the

¹³ A similar argument is made in Stephen Walt, *The Origins of Alliances* (Ithaca: Cornell University Press, 1990).

¹⁴ Wolfers, *Discord and Collaboration*, 158.

¹⁵ *ibid.*, 156; a more developed presentation of this argument is found in Robert Jervis, *Perceptions and Misperceptions in International Politics* (Princeton: Princeton University Press, 1975).

'security dilemma', captures a national security paradox: because there is no level of military preparation that can be objectively identified as sufficient for an effective national defence but insufficient for offensive action, leaders must recognize that their attempts to better protect their state can provoke competitors to respond in kind, with the result that core values are placed in greater danger. National security's subjective character can mean that, in certain contexts, an emphasis on more military strength makes a nation less, not more, secure.

To avoid the dangers of the security dilemma, Wolfers suggested that states intertwine diplomatic measures into their national security policies. Though diplomatic overtures will be counterproductive when dealing with competitors bent on aggression, the institution of international norms and regimes can build trust and reduce miscommunication between likeminded states.¹⁶ Norms and regimes may encourage states to exercise restraint in their military policies. Transparent policies and patterns of cooperation can also diminish fears and feelings of insecurity.¹⁷ Hence, in situations where an inadvertent security dilemma could occur, diplomatic efforts can be a stronger guarantor of national security than military buildups. As Wolfers argued, the subjectivity of national security "implies that national security policy, except when directed against a country unalterably committed to attack, is the more rational the more it succeeds in taking into consideration the interests, including the security interests, of the other."¹⁸

Beyond the security dilemma, states also shy away from military expenditures if defence costs constrain the attainment of other national goals. Theoretically, Wolfers noted, if the physical security of the nation is the primary duty of the state, leaders should

¹⁶ Robert O. Keohane, *After Hegemony* (Princeton: Princeton University Press, 1984), 49-84.

¹⁷ *ibid.*

¹⁸ Wolfers, *Discord and Collaboration*, 161.

spare no expense to protect their nation's independence and territory.¹⁹ Security, this view holds, is a public good enjoyed by the entire nation; though national security is never guaranteed and some risk must be accepted, the state should nonetheless do its utmost to protect itself. In reality, however, states, and liberal-democracies in particular, rarely spend all available funds on military preparedness. This is because national security is not an absolute good. Rather, security is a negative value: security is felt as an absence, either an absence of fear or an absence of threat. For states where there is little fear or threat of attack, leaders will be inclined to devote a portion, in some cases a substantial portion, of their national revenue to positive values, such as social welfare programs or lower tax rates. National security efforts, therefore, are constrained by the fact that the negative value of an uncertain security is acquired at the expense of more tangible positive values. In Wolfers words: "Every increment of security must be paid for by additional sacrifices of other values...Because nations must to some extent 'live dangerously', whatever they consent to do about it, then, a modicum of additional but only relative security may easily become unattractive to those who have to bear the chief burden."²⁰

Given this weighing of values involved in the national security policies, Wolfers concluded that national security affairs involve normative judgments. Since an increase in national security comes at the cost of other values, those who advocate greater national security efforts are making a moral argument that strengthening the physical security of the nation is worth more than an additional funding of welfare or other government programs, a reduction in taxes, or the lives of those who are called upon to bear arms in

¹⁹ *ibid.*,

²⁰ *ibid.*, 158.

service of the state. This is the classic ‘guns or butter’ predicament. Wolfers was not implying that devoting more resources to the security of states was always morally suspect. When a state is threatened or a nation fears for its safety, the sacrifice of positive values for the negative value of security is justified. His point was that, in situations where threats are few, fear of attack is subdued, and military forces are sufficient to meet contingencies within an acceptable degree of risk, calls for strengthened security efforts should be measured against the social and financial costs these additional measures impose on a nation.

Wolfers’ work established several enduring principles for the study of national security. Above all, he made national security’s subjectivity explicit. Instead of understanding national security merely in terms of objective, quantifiable military strength, Wolfers highlighted the primacy of fear and uncertainty. Indeed, viewed from this lens, fear is necessarily the initial impetus behind national security policy, since military forces would not be maintained if nations were not afraid of being attacked. Next, Wolfers understood that security is a negative value. Both nations and individuals feel secure when fear is diminished or eliminated. Beyond a reduction of fear or a deterrence of those who causes fear, security contributes little to national wellness. As a result, states that face few threats may be disinclined to fund all but minimal national security efforts. In addition, Wolfers reinforced the congruence between national security and international cooperation. While he did not see international regimes as a substitute for military capabilities, he appreciated that, in certain situations, diplomacy is better able to secure a nation than armed forces. In so doing, Wolfers offered a conception of national security affairs that includes both military and non-military facets. Lastly,

Wolfers' analysis of national security revealed the concept's conservative underpinnings. As presented in his scholarship, national security centres on preserving the status quo, rather than seeking change, especially if it is rapid or unexpected. This conservative orientation sets national security apart from other state preoccupations, such as foreign affairs and power enhancement, which can either be revisionist or status quo in their ends.

Wolfers' definition of national security as the protection of a state's core values proved especially enduring, influencing several scholars and policymakers.²¹ However, many who looked at Wolfers' rendering of national security concluded that limiting a state's core values to national independence and territory was too restrictive.²² States, they argued, could uphold and seek to protect many types of core values. Instructors at the Canadian National Defence College (NDC), for instance, proposed a definition of national security that expanded the range of core values states might seek to preserve. "National security," the NDC suggested, "is the preservation of a way of life...It includes freedom from military attack or coercion, freedom from internal subversion, and freedom from the erosion of the political, economic and social values which are essential to the quality of life."²³

The National Defence College's inclusion of economic values in the sphere of national security concerns reflected an important development in traditional national security studies. The origin of this development was the 1973 oil embargo imposed by the Organization of Petroleum Exporting Countries (OPEC) against states --primarily the United States and NATO members-- who supported Israel during the Yom Kippur War.

²¹ Buzan, *People* (1991), 17.

²² *ibid.*

²³ *Ibid.*

As a result of the OPEC action, targeted states saw gasoline price soar and supplies of crude oil shrink. This in turn heightened inflationary pressures in such countries, forcing the United States government to introduce price and production controls on petroleum products. Though the embargo lasted less than seven months, its economic and psychological effects were lasting and pronounced. Above all, the embargo demonstrated the dangers of depending on resources from foreign sources and the damage resource-rich states could inflict on their dependents. The embargo, it was argued, amounted to an “act of economic aggression.”²⁴

States and scholars of international affairs had long recognized that economic deprivations were powerful coercive tools. Blockades, after all, were a recognized weapon of economic warfare, and economic sanctions were among the means available to the United Nations Security Council to enforce collective security. Nonetheless, the OPEC embargo compelled the academic community to revisit the relationship between economics and national security. In the aftermath of the embargo, scholars revived centuries-old debates between economic liberalism and mercantilism/nationalism.²⁵ Robert Gilpin, for instance, challenged the notion that there was a necessary harmony between the interests of the United States and American multinational corporations.²⁶ These corporations, Gilpin argued, were pursuing their own interests at the expense, and to the detriment, of the United States'. For their part, Joseph Nye and Robert Keohane

²⁴ Klaus Knorr, “Economic Interdependence and National Security,” in Klaus Knorr and Frank N. Trager, eds. *Economic Issues and National Security* (Lawrence: Regents Press of Kansas, 1977), 7.

²⁵ Robert Gilpin, “Economic Interdependence and National Security in Historical Perspective,” in Klaus Knorr and Frank N. Trager, eds. *Economic Issues and National Security* (Lawrence: Regents Press of Kansas, 1977), 19-66.

²⁶ Robert Gilpin, *U.S. Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment* (New York: Basic Books, 1975). Gilpin’s argument challenged the statist notion that foreign economic policies pursued by the United States were principally designed to enhance American power. Stephen Krasner mounted a statist rebuttal to Gilpin in 1978 with his book *Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy* (Princeton: Princeton University Press, 1978).

began analyzing the costs and impacts of the economic interdependence that grew out of the post-Second World War liberal economic consensus.²⁷ At the forefront of these studies was the finding that, while interdependence had made capitalist economies more prosperous, it had also made them vulnerable to economic coercion and economic downturns originating in foreign states.

Armed with these insights about the risks of interdependence and threats of economic coercion, national security scholars began reevaluating Wolfers' argument that there was a necessary trade-off between state security and economic welfare. Given the potentially harmful effects of interdependence and foreign economic coercion, the preservation of a state's economic welfare could itself be a national security issue. Stated differently, a state's economic well-being could be seen as a core value worthy of protection against threats. As Klaus Knorr argued, "There is no reason why economic values and particular patterns of economic life cannot be regarded as vital."²⁸

Knorr developed his ideas about the linkages between national security and economics in the edited volume *Economic Issues and National Security* (1977).²⁹ According to Knorr, there are two economic threats to national security. First is the use of a resource by a state to coerce or exert leverage over another state. As illustrated by the OPEC embargo, Knorr argued that "Any dependence on the outside world for supplies that are vital to national economic life and that can be exploited in coercive attempt is a vulnerability raising security concerns." Second, Knorr observed that national security is weakened when economic conditions or restricted foreign supplies undermine a state's ability to maintain, build, or deploy military capabilities deemed essential to an effective

²⁷ Robert Keohane and Joseph Nye, *Power and Interdependence* (New York: Longman, 2001).

²⁸ Knorr, "Economic Interdependence and National Security," 8.

²⁹ *Ibid.*, 1-18.

national defence. Anticipating critiques that economic concerns such as these are too diffuse and indirect to count as veritable national security issues, Knorr admitted that “Economic threats are a matter of more or less,” meaning that economic threats only become national security concerns if their “adverse impacts are massive and continuous.” Knorr, moreover, accepted that the identification of economic insecurities was a matter of subjective perception. Yet this did not weaken his claims. As Wolfers showed, all threat perceptions are subjective. Knorr’s discussion of economic threats was consistent with the basic tenets of traditional national security studies. Finally, Knorr challenged skeptics to disprove the link between foreign economic coercion and national security. As he observed: “Whether sensitivity [to economic coercion] leads to threat perception is a subjective thing. It is also an empirical thing. It exists when it happens.”

Writing in the same volume as Knorr, Clark A. Murdock offered a broader understanding of national economic security.³⁰ For Murdock, Knorr’s focus on resource supplies and the economic base of military strength was too narrow. “Increased economic interdependence,” Murdock argued, “greatly increased the number of ways in which external forces may affect national economic conditions.” According to him, there were three types of threats to national economic security: threats to income, threats to economic stability, and threats to economic sovereignty. By income, Murdock referred to the amount and distribution of wealth within a state. If external forces lower a state’s wealth or alter its income distribution with sufficient speed and permanence, Murdock held, the situation might be perceived as a national security problem. Threats to economic stability include “denial to sources of supply, markets, capital, air, technology,” and

³⁰ Clark A. Murdock, “Economic Factors as Objects of Security: Economics, Security and Vulnerability,” in Klaus Knorr and Frank N. Trager, eds. *Economic Issues and National Security* (Lawrence: Regents Press of Kansas, 1977), 67-98.

severe shifts in national “levels of employment and inflation.” While the intentional denial of essential supplies, markets, technologies, and air spaces could easily be understood as aggressive acts, Murdock admitted that changes in employment and inflation rates are more difficult to treat as matters of national security. Nevertheless, if a state experiences a rapid, large-scale increase in unemployment or inflation, national leaders can feel that the security, welfare, or values of the state are in jeopardy. As Murdock explained, “A small amount of imported unemployment or inflation will not be disturbing, but larger amounts will.” Lastly, threats to economic sovereignty encompass acts that hinder a national government’s ability to influence economic affairs within a state or diminish leaders’ “power to control a full range of policy instruments,” such as monetary, trade, and fiscal policies. Hence, returning to Wolfers’ notion of core values, threats to economic sovereignty are those that rob states of their national independence in matters of economics and finance.

Murdock expanded on Knorr’s understanding of the sources of economic insecurity. Whereas Knorr focused on foreign states, Murdock believed threats to national economic security also emanated from non-state actors and systemic factors. Multinational corporations were the main non-state actor of concern to Murdock, since their actions can profoundly affect national incomes, stability, and economic sovereignty.³¹ Among the systemic factors capable of undermining a state’s economic security are international business cycles, currency fluctuations, stock market crashes, and the like. Murdoch’s discussion of systemic threat sources, furthermore, revealed that threats to a state’s economic security need not be malicious or intentional. In some cases,

³¹ See Gilpin, *U.S. Power and the Multinational Corporation*.

circumstance and unforeseen developments are sufficient to imperil national incomes, stability, and economic sovereignty.

Finally, in line with Knorr and the traditionalist emphasis on subjective threat perception, Murdock believed that the indiscrete and indirect nature of economic threats was not reason to rule out the idea of national economic security. What made national economic security a reality, he claimed, was that states treat national incomes, stability, and economic sovereignty as core values, and that governments react to certain intense economic developments and conditions as if they are threats to national security. As stated by Murdock, “with the exception of discrete economic threats, there can be no *a priori* definition of what constitutes an economic security issue. An analyst can project what should be viewed in security terms, but what makes an economic issue an economic security issue is defined by whether a government behaves as if an economic issue is a security issue.”³²

Knorr and Murdock’s studies of national economic security built on the already solid foundations of the traditional school of national security studies. By expanding Wolfers’ concept of core values and retaining his insights about subjective threat perceptions, Knorr and Murdock demonstrated the versatility of the traditionalist school and its strength as an analytical framework. Murdock’s work, furthermore, provided a thorough exploration of which economic concerns can become national security problems and of which actors threaten the national economic security of states. His analysis was an incisive contribution to the burgeoning sub-field of economic security.

Yet the works of Knorr and Murdock also exposed the limitations of traditionalist theories of economic security and of the traditional school of national security as a whole.

³² Murdock, “Economic Factors as Objects of Security,” 72.

Above all, the debate over what can count among the core values of states underscored the imprecision of the core values concept. No criteria are provided to identify the core values of a state. Analysts could arguably claim that any number of national concerns are core values worthy of protection under the rubric of national security. Furthermore, it is unclear if the core values of a state are those of citizens, government leaders, or of the state as an independent entity. If they are the core values of individual citizens or leaders, then there might be competing views regarding the core values of the state. In such cases, national security end up as the defence of the values of a dominant group rather than those of the state itself.

Another set of limitations relates to subjective threat perceptions. The traditionalist school provides no method of evaluating whether a threat is seen as a national security issue or merely a political problem. Both Knorr and Murdock claimed that the actions of states or government leaders are themselves evidence of when a threat is treated as a matter of national security. But they were vague about how these national security actions manifest themselves and how these actions differ from non-security oriented acts.

A third limitation is the traditional school's focus on the external sources of national security threats. For Wolfers, Knorr, and Murdock, the sources of threats to national security lie outside of a state's borders. This assumption is both conceptually and historically questionable. As the National Defence College's definition illustrates, some threats to national security, such as subversion, rebellion, and insurrection, may originate within the borders of states. Similarly, given Murdock's argument that threats to national incomes, economic stability, and economic sovereignty undermine national economic

security, there is no necessary reason why the sources of such threats must be external. Leaving this assumption unquestioned weakens the analytical insights, thoroughness, and applicability of traditionalist notions of national security and national economic security.

B) Mainstream National Security Studies

In the 1977 *Handbook of Political Science*, Richard Smoke presented an overview of national security as a concept and academic discipline. As compared to the field of international relations, Smoke observed that mainstream studies of national security tended to avoid theoretical contemplations or debates. Noted Smoke, “national security affairs is a field relatively lacking in broad general theories or even prototheories.”³³ Instead of questioning the meaning of national security, the mainstream trend has been to adopt a narrow definition that centers on the armed defence of citizens, territory and external interests from foreign military threats. As Richard Ullman observed about the United States in 1983:

Since the outset of the Cold War in the late 1940s, every administration in Washington has defined American national security in excessively narrow and excessively military terms...Just as politicians have not found it electorally rewarding to put forward conceptions of security that take into account of nonmilitary dangers, analysts have not found it intellectually easy.³⁴

A case in point is Stephen Walt’s influential 1991 article on security studies. He argued that studies of security are essentially studies of war. “Security studies,” Walt claimed, “may be defined as the study of the threat, use and control of military force.”³⁵ Efforts to expand security studies beyond this threshold, Walt maintains, “destroys [the

³³ Richard Smoke, “National Security Affairs,” *The Handbook of Political Science* (1977), 258.

³⁴ Richard H. Ullman, “Redefining Security,” *International Security* 8 (Summer 1983): 129.

³⁵ Stephen M. Walt, “The Renaissance of Security Studies,” *International Studies Quarterly* 35 (June 1991): 212.

field's] intellectual coherence and make it more difficult to devise solutions to...important [military] problems."³⁶ According to this understanding, national security is, and should be restricted to, the armed defence of a state's territorial integrity and extra-territorial interests.

An avoidance of theoretical explorations in mainstream national security is also encouraged by the pragmatic, policy-oriented nature the school's work and aims. An important feature of mainstream national security scholarship is the extent to which academic specialists and practitioners interact. Mainstream national security scholars and practitioners form, in John Kingdon's terminology, a 'policy community' whose members "know each other's ideas, proposals, research and often know each other very well personally."³⁷ This close relationship has led many scholars to research subjects of practical use to government officials. In order to prescribe or describe policies, policy-oriented national security specialists track developments in military technology and the international environment. One consequence of keeping abreast of international and technological developments is that there is less interest in examining the theoretical foundations of national security. As Smoke observed:

The practical and intellectual effects of this degree of situational sensitivity are much enhanced by the fact that so many of the contextual details are changing rapidly. International events, which may be quite sudden, can alter, sometimes radically, a whole range of important national security questions...The major military technologies are advancing so rapidly, in fact, that national security specialists find themselves devoting much of their time and effort simply to keeping up with present and projected weapons and associated technical systems, and to creating the ideas and theories needed to understand and cope with their novelties.³⁸

³⁶ Walt, "Renaissance," 213.

³⁷ John Kingdon, *Agendas, Alternatives, and Public Policies* (New York: Longman, 2003), 117.

³⁸ Smoke, "National Security Affairs," 257.

This focus on armed force, global events, and technological advances is seen in the seminal national security writings that have appeared since 1945. Industrialized warfare reached its apex during the Second World War. Waging ‘total war’ demanded that combatant states mobilize substantial, and in some cases near complete, portions of their population and industry. After the Allied victories against Germany and Japan, a key issue for scholars and practitioners was how best to balance military requirements with the needs of a growing civilian economy. For the United States, Canada, and Western Europe, this dilemma was deepened during the early to mid Cold War by the need to maintain sufficient forces to contain a feared Soviet expansionism. The burgeoning field of national security studies echoed these concerns. Samuel Huntington’s *The Common Defense* (1961) is the best-known work on these questions from this period.³⁹

The Second World War also introduced a new weapon that fundamentally changed warfare and thinking about national security, the atomic bomb. It, along with the devastating nuclear weapons that followed, encouraged mainstream national security specialists to reevaluate relationships between war and politics, diplomacy and military power, safety and security, and, most critically, victory and defeat. For mainstream American national security studies especially, the impact of nuclear and atomic weapons on traditional military and diplomatic thinking ensured that the sub-field of ‘strategic studies’ dominated the discipline throughout the Cold War. Strategic studies examined how nuclear deterrence enhanced national security in a bipolar world.

Bernard Brodie’s *The Absolute Weapon*, offered a first glimpse into the affect of atomic weaponry on national security thinking.⁴⁰ Brodie’s initial venture in 1946 was

³⁹ Samuel P. Huntington, *The Common Defense* (New York: Columbia University Press, 1961).

⁴⁰ Bernard Brodie, ed. *The Absolute Weapon* (New York: Harcourt Brace, 1946).

followed by scores of books and articles debating the implications of atomic and nuclear technology. Among the better known works on nuclear strategy and national security were: Paul Nitze, “Atoms, Strategy and Policy” (1956); Henry Kissinger, *Nuclear Weapons and Foreign Policy* (1957); Bernard Brodie, *Strategy in the Missile Age* (1959); Albert Wohlstetter, “The Delicate Balance of Terror” (1960); Thomas Schelling, *The Strategy of Conflict* (1960); Herman Kahn, *On Thermonuclear War* (1960); McGeorge Bundy, *Danger and Survival* (1988); Scott D. Sagan, *Moving Targets* (1989).⁴¹

A corollary to the sub-field of strategic studies is the sub-field of strategic arms control. As one group of mainstream specialists strove to enhance national security by resolving nuclear deterrence, brinkmanship and escalation puzzles, another sought to improve national security by limiting the nuclear arsenals and technologies of the superpowers. In some cases specialists worked in both areas.⁴² Given the sheer destructiveness of thermonuclear weapons, many believed that an unchecked nuclear buildup needlessly increased the physical insecurity of nations. Well-known Cold War era strategic arms control analysts and advocates included Herbert Scoville, John Newhouse, Strobe Talbott, and groups such as the Federation of American Scientists and the publishers of the *Bulletin of the Atomic Scientists*.⁴³

⁴¹ Paul Nitze, “Atoms, Strategy and Policy,” *Foreign Affairs* 34 (January 1956); Henry Kissinger, *Nuclear Weapons and Foreign Policy* (New York: Harper, 1957); Bernard Brodie, *Strategy in the Missile Age* (Princeton: Princeton University Press, 1959); Albert Wohlstetter, “The Delicate Balance of Terror,” *Foreign Affairs* 37 (April 1961); Thomas Schelling, *The Strategy of Conflict* (Oxford: Oxford University Press, 1960); Herman Kahn, *On Thermonuclear War* (Princeton: Princeton University Press, 1960); McGeorge Bundy, *Danger and Survival* (New York: Random House, 1988); Scott D. Sagan, *Moving Targets: Nuclear Strategy and National Security* (Princeton: Princeton University Press, 1989).

⁴² Thomas Schelling, a leading nuclear strategy analysts, also authored important works on arms control. See Thomas Schelling and Morton Halperin, *Strategy and Arms Control* (New York: Twentieth Century Fund, 1961).

⁴³ Herbert Scoville, *Toward a Strategic Arms Limitation Agreement* (New York: Carnegie Endowment for International Peace, 1970); John Newhouse, *Cold Dawn: The Story of SALT* (New York: Holt, Rinehart and Winston, 1973); Strobe Talbott, *Deadly Gambits* (New York: Knopf, 1984). The Federation of American Scientists was formed in 1945 by members of the Manhattan Project, the team that built the first atomic

For smaller powers, mainstream Cold War national security studies centered on alliance issues. In a bipolar international system, the security policies of smaller powers were inevitably shaped by their memberships in blocs. Mainstream Cold War Canadian national security studies are a case in point. Although Canada formulated its own defence policies during the Cold War, the content of these policies was greatly influenced by the arrangements of the North Atlantic Treaty Organization (NATO) and continental defence regimes such as the Canada-United States Military Cooperation Committee (MCC) and North American Air Defence Command (NORAD). In the late 1940s and early 1950s, W.E.C Harrison, C.P. Stacey and J. Bartlet Brebner examined the geopolitics of Canada's 'Atlantic-oriented' defence policies.⁴⁴ During the same period, career diplomats such as Lester B. Pearson, Escott Reid and John Holmes published regularly on the United Nations' and NATO's role in Canadian national security policy.⁴⁵ These themes endured in the 1960s and 1970s, when prominent scholar James Eayrs reviewed Canada's postwar security postures.⁴⁶ A third generation of mainstream Canadian national security specialists elaborated on this approach and applied it to the late Cold War and post-Cold War eras.⁴⁷

bomb. *Bulletin of the Atomic Scientists* is published by the Educational Foundation for Nuclear Science, founded in 1949.

⁴⁴ Eric Harrison, "Strategy and Policy in the Defence of Canada," *International Journal* 4 (Summer 1949); J. Bartlet Brebner, "A Changing North Atlantic Triangle," *International Journal* 3 (1948); C.P. Stacey, "The Canadian-American Permanent Joint Board on Defence, 1940-1945," *International Journal* 9 (Spring 1954).

⁴⁵ Lester B. Pearson, "Canada and the North Atlantic Alliance," *Foreign Affairs* 27 (April 1949); Escott Reid, "The Art of the Almost Impossible," in Nicholas Sherwen, *NATO's Anxious Birth* (London: C. Hurst & Co., 1985); John W. Holmes, *The Shaping of Peace: Canada and the Search for World Order, 1943-1957* (Toronto: University of Toronto Press, 1979).

⁴⁶ James Eayrs, *In Defence of Canada: Peacemaking and Deterrence* (Toronto: University of Toronto Press, 1972); James Eayrs, *In Defence of Canada: Growing Up Allied* (Toronto: University of Toronto Press, 1980).

⁴⁷ Nils Orvik, "Canadian Security and 'Defence against Help'," *International Perspectives* (May-June 1983); Joel J. Sokolsky, "A Seat at the Table: Canada and its Alliances," *Armed Forces and Society* 16 (Fall 1989); David Dewitt and David Leyton-Brown, *Canada's International Security Policy* (Scarborough:

After the fall of the Soviet Union, the gaze of mainstream national security specialists continued to be fixed on technological developments and international events. On the technological side, advances in communications, computer, surveillance, reconnaissance and intelligence capabilities encouraged many specialists to investigate the emergence of a revolution in military affairs (RMA).⁴⁸ Of special interest was the relationship between the RMA and a maintenance of NATO's military supremacy. With respect to international events, the proliferation of nuclear, biological and chemical (NBC) weapons, and the means to deliver them across continents, sparked a renewed interest in both nuclear strategy and arms control. While some analysts believed NBC proliferation demanded a robust counterproliferation strategy involving a preemptive and preventive strikes by the United States,⁴⁹ others maintained that national and global security would be better protected by a stronger arms control, verification and disarmament efforts.⁵⁰

Finally, in the aftermath of 11 September 2001, terrorism and asymmetric threats became leading topics of interest for mainstream national security scholars.⁵¹ Current

Prentice-Hall Canada, 1995); Joel J. Sokolsky, *Realism Canadian Style: The Chrétien Legacy in National Security Policy* (Montreal: Institute for Research on Public Policy, 2004).

⁴⁸ Eliot A. Cohen, "A Revolution in Warfare," *Foreign Affairs* 75 (March-April 1996); Thierry Gongora and Harald von Riekhoff, eds. *Toward a Revolution in Military Affairs? Defense and Security at the Dawn of the Twenty-first Century* (Westport: Greenwood Press, 2000); Elinor C. Sloan, *The Revolution in Military Affairs* (Montreal: McGill-Queen's University Press, 2002).

⁴⁹ Keith Payne, *Deterrence in the Second Nuclear Age* (Lexington: University of Kentucky Press, 1996); Mitchel B. Wallerstein, "Concepts to Capabilities: The First Year of Counterproliferation," in William H. Lewis and Stuart E. Johnson, eds. *Weapons of Mass Destruction: New Perspectives on Counterproliferation* (Washington: National Defense University Press, 1995).

⁵⁰ Alton Frye, "Banning Ballistic Missiles," *Foreign Affairs* 75 (November-December 1996); Ashton B. Carter and William J. Perry, *Preventive Defense: A New Security Strategy for America* (Washington: Brookings Institution Press, 1999); Jonathan Schell, "The Folly of Arms Control," *Foreign Affairs* 79 (September-October 2000); Graham Allison and Andrei Kokoshin, "The New Containment: An Alliance Against Nuclear Terrorism," *The National Interest* (Fall 2002); Jon B. Wolfsthal and Tom Z. Collina, "Nuclear Terrorism and Warhead Control in Russia," *Survival* 44 (Summer 2002).

⁵¹ A comprehensive collection of the security-oriented literature on terrorism is Russell D. Howard and Reid L. Sawyer, eds. *Terrorism and Counterterrorism: Understanding the New Security Environment* (Guilford: McGraw-Hill/Dushkin, 2003).

debates in the literature surround ‘homeland security’ versus expeditionary counterterrorism campaigns⁵² and the use of armed forces for consequence management functions.⁵³ While terrorism has led national security specialists to reconsider the Hobbesian distinction between domestic and national security, protection of the state against terrorism is largely viewed through the prism of armed defence. In line with history of the discipline, security-oriented studies of terrorism concentrate on defending national infrastructures, citizens and external interests from asymmetric attacks.⁵⁴

In sum, mainstream national security studies concentrate on the role of armed force in the protection of national territory, national independence, and vaguely defined extra-territorial national interests. Indeed, given the focus on military technology identified by Smoke and the increasing militarization of the field observed by Ullman and applauded by Walt, it is fair to say that mainstream national security has been dominated by the study of national defence policies. The same is true of the mainstream’s understanding of the relationship between economics and national security.

Mainstream national economic security studies center on two topics: the economic base of military strength and the economics of defence. Following Knorr, mainstream scholars hold that economic issues become national security concerns when economic conditions impair the ability of states to build, maintain, or deploy armed forces.⁵⁵ Hence, if a state lacks funds to effectively defend itself against a military incursion, the economic problem of insufficient national wealth can be seen as a national

⁵² Peter Chalk and William Rosenau, *Confronting the Enemy Within* (Santa Monica: Rand Corporation, 2004); Stephen E. Flynn, “The Neglected Home Front,” *Foreign Affairs* 83 (September-October 2004).

⁵³ James J. Carafano, *Citizen-Soldiers and Homeland Security: A Strategic Assessment* (Arlington: Lexington Institute, 2004).

⁵⁴ In Canada legal scholars have written thoughtful studies of terrorism’s impact on civil liberties. See Kent Roach, *September 11: Consequences for Canada* (Montreal: McGill-Queen’s University Press, 2003).

⁵⁵ Kapstein, *The Political Economy of National Security*.

security problem. Likewise, if a foreign state withholds resources or technologies vital for the maintenance or deployment of a state's armed forces, this type of economic coercion counts as a matter of national security. The mainstream's other economic interest, defence economics, is a sub-field of national defence that examines issues surrounding the composition and setting of defence budgets, defence industrial bases, force structuring decisions, defence procurement, and the costs and benefits of alliances.⁵⁶ Using theories derived from the academic disciplines of economics and public administration, defence economists explore the economic determinants of defence policymaking. In keeping with the mainstream's defence-centric definition of national security, therefore, these conceptions only address economic issues that affect the use of armed forces.

Because of its narrow focus on national defence and policy-relevant analyses, the mainstream school of national security studies is widely applicable, influential with decisionmakers, and relevant in a world plagued by armed conflict. These are the school's undeniable strengths. Yet, in its theoretical treatment of national security, the mainstream school is deficient. While restricting national security to national defence simplifies the concept and sets clear boundaries for policymakers and scholars alike, this perspective discards any conception of national security that looks beyond the physical properties of the state. Similarly, the mainstream school is necessarily silent about the normative aspects of national security identified by the traditionalist school. Mainstream accounts of national economic security are an example. Absent from mainstream analyses are the national security implications of economic interdependence, economic instability, or any other economic concern that does not directly affect a state's ability to operate or

⁵⁶ *ibid.*

deploy armed forces. Given the traditionalist school's insights about the importance of these issues for national security, the mainstream's silence is troubling. Simply put, in light of its narrow focus, the mainstream school would be better named 'national defence policy studies'. Renaming the school in this way would in no way dampen its appeal or relevance, though it would allow more theoretically-grounded studies of national security and national economic security to develop.

C) Comprehensive Theories of National Security

In 1983 Barry Buzan published *People, States, and Fear*,⁵⁷ a work that aimed to provide a comprehensive theory of national security. Taking aim at the realist school of international relations theory and mainstream and traditional notions of national security, Buzan sought to place the idea of national security on a firmer theoretical foundation.

Buzan began his book by differentiating security from two related but separate concepts: power and peace.⁵⁸ According to Buzan, conflating security and power leads to the erroneous conclusion that less powerful states are necessarily less secure than their more powerful counterparts. In light of the varying circumstances and environments particular states inhabit, Buzan showed why this conclusion does not follow automatically. A feeble state, he demonstrated, can be secure if it is not threatened by a powerful competitor, while a powerful state can be insecure if it is confronted by equally powerful adversaries. Security, then, cannot simply be derived from power. At best, he

⁵⁷ Barry Buzan, *People, States, and Fear* (Brighton: Wheatsheaf Books, 1983).

⁵⁸ Buzan's critique was directed at the realist school of international relations theory. Classical realists such as Hans Morgenthau held that the accumulation of power was the ultimate aim of states. Neorealists like Kenneth Waltz maintained that survival was the primary goal of states, which in turn leads states to increase their power to defend themselves against other states in an anarchic international system. See Hans J. Morgenthau, *Politics Among Nations* (New York: Knopf, 1948) and Kenneth Waltz, *Theory of International Politics* (New York: McGraw-Hill, 1979).

observed, security and power are companion concepts: powerlessness may aggravate insecurity, but an abundance of power does not guarantee security. Next, Buzan denied that security is the same as peace.⁵⁹ By elaborating upon the difference between peace and security, he hoped to illustrate why non-aggression pacts and international treaties are not sufficient guarantors of national security. Peaceful relations among two states, he postulated, depend on a shared appreciation between the states that they are not a threat to one another. A sense of security precedes peace. Similarly, a sense of insecurity undermines an existing condition of peace. Pronouncements of peace and non-aggression contained in treaties are only effective if there is a genuine sense of security among signatories. For Buzan, peace is built on a foundation of security.

Having demonstrated that security is not reducible to power or peace, Buzan set out to define security on its own terms. Buzan argued that individual security and national security are distinct concepts. To grasp the unique dynamics of national security, he showed, it is essential to understand that the security of citizens and the security of the state represent two types of security. Though the security of citizens is one aim of national security, other national security goals transcend concerns with the safety of individual members. In some cases, moreover, the security of the state is acquired at the expense of individual security.

According to Buzan, individuals face a myriad of threats to their security, and no person is ever wholly secure.⁶⁰ Included among the threats to individual security are disease, poverty, personal injury, assault, theft and other crimes. To a certain extent, individuals can protect themselves against some of these threats, whether by living

⁵⁹ Buzan, *People* (1983), 2.

⁶⁰ *ibid.*, 19.

healthily, saving a portion of their income, or by purchasing insurance or other tools and services to protect themselves and their property. But no matter how cautious people are, it is impossible to guard against all contingencies. Disease, for example, strikes relatively healthy individuals, and market failures such as the Great Depression can deplete personal fortunes. In spite of personal efforts to cope with unpredictable situations, all but the luckiest of people will encounter some security diminishment in a lifetime. Alongside personal efforts, individuals look to the state to reduce their insecurity. With respect to personal well-being, for instance, socially-minded states offer health and welfare programs to reduce the impact of disease and poverty on citizens. As the Hobbesian notion of 'domestic security' revealed, the state also protects individuals from one another. In exchange for renouncing certain freedoms and liberties, the state promises its citizens it will punish or deter those who might harm them. Depending on the state in question, laws will also delimit which freedoms and liberties citizens retain.

Individuals further rely on the state to protect them from foreign threats. This is the point, Buzan argues, where individual security and national security intersect. To protect its people from external threats, the state demands sacrifices from citizens. In the name of national security, the state can impose taxes and rationing, curtail freedoms and liberties, expropriate property and call up citizens for military service. Even in states where the sovereign authority is said to be a representation of the collective will of the citizenry, there is a reciprocal agreement that permits the sovereign to demand sacrifices from the citizenry to fulfill the state's security functions.

For Buzan, the authority to guarantee or revoke freedoms and liberties, guard or seize property and wealth, and punish or protect citizens imbues the state with an

independent ontological status.⁶¹ Stated plainly, since the state can lay claim to the lives and goods of particular citizens to protect the nation as a whole, the state is greater than its individual parts. The state's ontological independence led Buzan to present three, at times paradoxical,⁶² propositions. First, national security is not equivalent to individual security.⁶³ Given that the state is an independent entity, it has security concerns that transcend those of its citizens. Second, because the state protects them, citizens have a vested interest in the survival and security of the state.⁶⁴ While particular citizens may be dissatisfied with the balance of rights and security upheld by their state, a functional system of law and order is preferred to lawlessness or foreign subjugation. Noted Buzan: "States of all types benefit from the widespread feeling among individuals that anything is better than reversion to the state of nature. So long as the state performs its Hobbesian tasks of keeping chaos at bay, this service will be seen by many to offset the costs of other state purposes, whatever they may be."⁶⁵ Third, the state can be a threat to the individual security of its citizens.⁶⁶ Insofar as the security of the state is not reducible to the security of individual citizens, Buzan notes that there is no necessary harmony between the two. The state may amplify individual insecurities by bolstering national security.⁶⁷ In addition to enacting selective service laws or expropriating property, the state may in fact hold its citizens hostage for the sake of national security. Nuclear deterrence, which is founded on the idea of 'mutually assured destruction', is an example

⁶¹ *ibid.*, 22.

⁶² Buzan admits that these paradoxes exist. See *ibid.*, 24.

⁶³ *ibid.*, 30.

⁶⁴ *ibid.*, 22.

⁶⁵ Buzan, *People* (1991), 43.

⁶⁶ *ibid.*, 24.

⁶⁷ Buzan explores this issue much further. For example, he examines various ways in which the national security can be used as a pretext for subjugating citizens and protecting elite interests. Since they are peripheral to the argument here, these points are not explored in-depth.

of this kind of national security policy.⁶⁸ As summarized by Buzan: “The unavoidability of this contradiction between individual and state security must be emphasized. The contradiction is rooted in the nature of political collectivities. In the real world, it can be neither resolved nor evaded. Consequently, [my] task...will not be to reduce [national] security down to some basic common denominator of individual security.”⁶⁹

Because the state is an independent entity, Buzan argued, its security must revolve around attributes that belong to it as a autonomous political unit. This supposition compelled him to investigate the essence of the state. According to Buzan, states are comprised of four elements: a physical base, sovereignty, ideas, and institutions. National security involves the protection of each of these components.

All states possesses a physical base, made up of its territory, resources, and inhabitants. Without these substantial components, it would be impossible to locate or identify a state as a state. As argued by the traditionalist and mainstream schools, protection of this physical base is the most apparent national security function of the state. Clearly, if a state’s physical base is destroyed, occupied, or absorbed by a competitor, the state no longer exists. Defence of the physical base is primarily a military task, though ecological threats can also be seen to undermine the physical base. Military forces are maintained to deter or defeat attacks against the physical base. Armed forces can also be deployed offensively to defend the physical base. As Carl von Clausewitz observed, in military matters offense and defence are intertwined, nearly to the point of inseparability.⁷⁰ Doctrines of preventative and pre-emptive attack, and strategies of

⁶⁸ Buzan, *People* (1991), 48-49.

⁶⁹ *ibid.*, 31.

⁷⁰ Carl von Clausewitz, *On War*, trans. Michael Howard and Peter Paret (Princeton: Princeton University Press, 1976), 357.

forward defence are examples. These aim to cripple enemy forces before they are offensively deployed. The physical base, however, is not the entirety of the state. Damaging or seizing a portion of a state's physical base does not necessarily lead to its dissolution. France did not cease to be France, for example, when it lost Alsace-Lorraine to Prussia in 1871. As Buzan observed, "damage to territory and population does not affect the survival of the state nearly so directly as damage to the human body affects individual survival."⁷¹ To Buzan, this highlights that there is more to the state than its material components. Alongside its physical base, Buzan's study pointed to three immaterial elements that comprise the totality of the state: sovereignty, ideas, and institutions.

Sovereignty is the legal pillar of the state. If the sovereignty of the state is not respected, recognized or enforced, the authority of its government and the power of its laws are at best questionable, and at worst nullified. Without sovereignty over a defined physical base, a state is not a self-ruling, independent political entity.⁷² In fact, without a sovereign control of its physical base, a state ceases to be a state; it is merely a 'country' or conquered territory. Colonies are an example. When India was part of the British Empire, the country of India existed, but India was not a state since its sovereign authority was the British monarch. Protecting national sovereignty involves a variety of military and non-military efforts. Militarily, a state protects its sovereignty by defending itself against occupation or boundary violations. Diplomatically, a state protects its sovereignty by negotiating treaties and agreements marking state boundaries and outlining permissible crossings. Agreements and treaties can also set conditions for

⁷¹ Buzan, *People* (1991), 63.

⁷² *ibid.*, 67.

cooperative efforts, such as military command and control in alliances, the relationships between international and national laws, and criminal extradition. Internally, sovereignty is protected by guarding, usually through counterespionage efforts, against excessive or clandestine foreign influences on national policymaking.

Ideas of the state, Buzan maintains, are twofold: nationality and organizing ideologies. In states where the population belong to a single ethnic group (veritable *nation-states*), one idea of the state is the group's ethnic identity. The state thus exists as an expression of the ethnic nationality, and protecting the identity of the ethnic group is one of the state's national security imperatives. Japan is such a nation-state. Upholding the customs, language, and ethnic makeup of the Japanese people is a primary national security function of the Japanese state.⁷³ Threats to the idea of ethnic nationality can include the importation of foreign cultural practices or languages and the migration of large numbers of peoples from another ethnic group. To defend against such incursions, nation-states may enact laws that restrict the use of foreign languages, promote the cultural practices of the ethnic nationality, or limit the emigration of peoples from other ethnicities.

States fostering the notion of a civic nationality (*state-nations*), on the other hand, seek to protect and uphold a national idea created by the state. In the United States, Australia, and Chile, for example, "The state generates and propagates uniform cultural elements like language, arts, custom and law, so that over time these take root and produce a distinctive, nation-like, cultural entity which identifies with the state. Citizens begin to attach their primary social loyalties to the state-nation, referring to themselves as

⁷³ *ibid.*, 72-73.

Americans, Chileans, Australians.”⁷⁴ States with multiple ethnic nationalities, such as Great Britain, may also establish a civic nationality that supersedes ethnicity. Threats to civic nationality can include widespread disillusionment with the civic culture the state propagates; the mass migration of an ethnic group that clings to cultural practices that differ from those of the civic culture; and a reluctance on the part of one or more ethnic groups to identify more with their ethnic nationality than with their civic nationality. As part of a defence against these threats, state-nations may limit the immigration of certain ethnic groups, aggressively assimilate new migrants, or enact laws that strengthen the salience of the civic culture.

A third type of nationalist idea is found in multinational-states that do not attempt to promote a form of civic nationalism. In *federative* multinational-states, the peaceful coexistence of one or more ethnicities is the national idea. Under federative systems, “Separate nations are allowed, even encouraged to pursue their own identities, and attempts are made to structure the state in such a way that no one nationality comes to dominate the whole structure.” To keep these disparate ethnic nationalities united, federative states resort to pragmatic arguments, such as recognizing the relations of mutual economic dependence between the groups.⁷⁵ Canada is the prototypical example of a federative multinational-state. Under *imperial* multinational states, however, one ethnic group dominates. This domination is usually repressive, with the leading ethnic group either imposing its culture on the subservient nationalities, or engaging in the cultural or physical genocide of other ethnicities.⁷⁶ Russians in the former Soviet Union fit with the former description, while the latter describes Muslims in Sudan. For both

⁷⁴ *ibid.*, 73.

⁷⁵ *ibid.*, 76.

⁷⁶ *ibid.*, 76-77.

federative and imperial multinational-states, threats of succession are a constant concern. Federative states will typically counter these threats with conciliation, compromise, and renewed efforts to sell the pragmatic logic of unity. Imperial states may respond with military force and further repression.

Organizing ideologies are the second type of state ideas. According to Buzan, organizing ideologies lie “at the heart of a state’s political identity.”⁷⁷ While a precise definition of ‘organizing ideology’ is difficult to formulate, it is best understood as the historically rooted and reinforced norms and values that shape a state’s political, economic, social, or religious practices. Stated in Buzan’s terms, organizing ideologies are ‘higher’ ideas that “a firmly established nation reproduces...automatically by the transfer of culture to the young.”⁷⁸ Though these practices evolve over time, the concept of an organizing ideology suggests that there are ordering principles that guide, slow, or propel these evolutions. Moreover, some changes to a state’s organizing ideologies will be deemed acceptable, while others will be perceived as threatening. Buzan’s examples of organizing ideologies include liberal-democracy and capitalism in the United States; Zionism in Israel; Catholicism in Ireland; Shiite Islam in Iran; secularism and republicanism in France; communism in Cuba and North Korea; and fascism in Nazi Germany and Mussolini’s Italy.⁷⁹

However mutable organizational ideologies are, protecting them is nonetheless part of a state’s national security function. Indeed, it is because of their fragility that the preservation of organizing ideologies can become a state’s foremost national security concern. As Buzan argues, “In some cases, an organizational ideology will be so deeply

⁷⁷ *ibid.*, 70.

⁷⁸ Buzan, *People* (1983), 50.

⁷⁹ *ibid.*, 51.

ingrained into the state that change would have transformational, or perhaps fatal, implications.”⁸⁰ Of special concern to states are cases where organizing ideologies are threatened with rapid, revolutionary changes. Such changes are the likeliest to be labelled unacceptable or dangerous to the state. Threats to organizing ideologies are diverse. Some of these are internal. Revolutionary groups may seek to overturn the political-economic order of the state. Unstable economic conditions and widespread feelings of individual insecurity may prompt citizens to abandon, alter, or dilute the state’s ideological principles. Other threats are external. Foreign states can support revolutionary groups challenging the ordering principles of the state. Transnational groups may attack the ordering principles of numerous states as part of a global revolutionary movement. What ties all of these threats together is that they are directed toward the state as an ontologically independent entity.

Though it might be argued that such threats are a domestic security problem, this assessment misunderstands that security function. Domestic security affairs deal with threats to individuals from other individuals, or from internal groups towards other internal groups. Conversely, because they target ordering principles, threats to organizing ideologies affect the state itself, rather than individual citizens. While conflict between ideologically opposed groups within the state is a domestic security issue, an attack against, or weakening of, a state’s organizing ideologies is a national security issue.⁸¹

⁸⁰ *ibid.*, 51.

⁸¹ A similar argument about the importance of a state’s ideological component is made by Marxist theorist Louis Althusser. According to older Marxist scholars such as Vladimir Lenin, a distinction must be made between the power of the state and the apparatus of the state. The power of the state refers to the use of the state by the ruling class to forward and protect its interests. When exerting this power, though, the ruling class uses the apparatus of the state, including the police, courts, armed forces, and other institutions. The distinction was made because the seizure of state power by one group does not necessarily imply a reorganization or recasting the state’s apparatuses. Indeed, in many cases the apparatuses may act as an independent constraint on those who have taken power in a state. Althusser accepted this distinction but

Measures to protect a state's organizing ideologies are as diverse as the threats themselves. Because they are vulnerable to various forms of attack or weakening, "an attempt to apply the concept of security to [organizing ideologies] can lead to exceedingly sweeping criteria being set for attaining acceptable levels of security."⁸² Stated differently, given the importance of organizing ideologies to the state, government leaders will be especially sensitive to threats against organizing ideologies and a plethora of measures are likely to be enacted to protect them. Military measures might include the use of armed forces to suppress revolutionary groups. Revolutionaries or proponents of alternative ideologies may also be prosecuted, imprisoned, executed, or deported. Diplomatic measures can include convincing or coercing foreign states to cease supporting revolutionary groups. Political and economic measures might include political-economic reforms to mollify insecure populations, or propaganda and education campaigns to discredit alternative ideologies.

thought that a thorough investigation of the state required a further distinction. Instead of seeing the apparatus of the state in uniquely material terms, Althusser posited that there are two types of state apparatuses: the repressive state apparatus and the ideological state apparatus. Included in the repressive apparatus are those physical institutions who exert overt and structural violence, such as the police and courts. Ideological apparatuses, on the other hand, are discourses of correct conduct and thinking that operate across society and reproduce the behaviours and norms of the ruling class. Although these ideological apparatuses are numerous and multifaceted, taking the form of religious, education, legal, cultural, and political discourses, their underlying function is the same: to perpetuate means and relations of production that benefit the ruling class and to solidify the ruling class' hold on the state's power. Owing to this function, acknowledging the importance and distinct role of the ideological apparatus of the state is fundamental to understanding the makeup and definition of the state. Like Buzan, then, Althusser showed that the ideology of the state is separate from its physical parts and institutional components, but equally essential to the state's existence. What is more, Buzan and Althusser further agree that the ideological component of the state can be subject to attack. Indeed, factions who take hold of the state power must also control and reshape the ideological apparatus of the state if they are to truly control the state in its entirety. Similarly, groups attempting to seize the state power may start by infiltrating the ideological apparatus of the state. See Louis Althusser, "Ideology and Ideological State Apparatuses," in Louis Althusser, *Lenin and Philosophy and Other Essays* (New York: Monthly Review Press, 2001), 85-126.

⁸² Buzan, *People* (1991), 80-81.

Institutions are the final component of the state. Comprising the “entire machinery of government,”⁸³ institutions range from constitutions to the departments, agencies, and offices belonging to the judicial, executive and legislative branches of governments. In addition to the governing procedures they uphold, institutions are vital to states because of their links with organizing ideologies. Institutions are tied to organizing ideologies in two ways. First, institutions can be crafted to represent or protect established or burgeoning ordering principles. Thus the American Constitution enshrined the political-economic principles of the United States, and the British North America Act expressed the ordering principles and federative logic of Canadian Confederation. Secondly, institutions can serve to embed new ordering principles. The Federal Republic of Germany’s post-Second World War Basic Law, for instance, aimed in part to cement liberal-democratic practices, and eliminate fascist and imperial tendencies, in West German society. Likewise, when new ideologies are being introduced, strong institutions can be used to repress segments of the population calling for a return to previous political-economic or religious orderings.⁸⁴ For Buzan, there is a high degree of interrelation, fusion, and in some cases substitutability, between organizing ideologies and state institutions.

This interrelation/fusion/substitutability indicates that institutions are as much objects of national security as the ordering principles they reflect. Moreover, institutions and ideologies tend to be targeted by the same groups. As part of an effort to transform an organizing ideology, internal, transnational or foreign-backed factions may attempt to destroy or dominate institutions. However, institutions and their defence differ from

⁸³ *ibid.*, 82.

⁸⁴ *ibid.*, 84-86.

ordering principles in two ways. Above all, unlike organizing ideologies, institutions are susceptible to physical attack. A successful invasion or series of attacks can cripple a state's governing machinery --either by killing office holders, cutting lines of communications between leaders, departments, and agencies, or destroying infrastructures. In such cases, the physical vulnerability of institutions resembles that of sovereignty and the physical base. On the other hand, aside from their physical representations, certain types of institutions are less fragile and mutable than organizing ideologies.⁸⁵ Especially in states where they are firmly entrenched, institutions can weather significant ideological changes. The British monarchy, for example, survived dynastic wars, the creation of a new state religion, and reestablishment after being exiled by Oliver Cromwell in the seventieth-century.

This variety affects the means states employ to protect institutions. Securing institutions that are vulnerable to physical attack involves defences similar to those that protect the state's physical base. However, unlike defences of the physical base, an armed defence of an institution's physical attributes can be either a military, paramilitary or police task. The American presidency is protected by both the United States military and the Secret Service, while a personified institution, such as a dictator, may be defended by an elite paramilitary unit such as former Iraqi president Saddam Hussein's Republican Guard. Protecting the ideological aspects of an institution is more complex and likely to differ among states. Constitutional regimes, and liberal-democratic constitutional regimes in particular, tend to rely on courts to uphold the letter and spirit of their constitution. Adherence to traditional political practices, like the procedures of Westminster-style parliaments, preserves the integrity of governing institutions. Civic education serves to

⁸⁵ *ibid.*, 86-88.

instill respect for, or maintain the legitimacy of, institutions. Finally, diplomacy and counterintelligence units can be used to discourage or prevent foreign powers from undermining or corrupting state institutions.

When taken together, Buzan argued that threats to the four elements of a state are classifiable into four sectors: military, political, societal, ecological, and economic. Military threats are those that involve the use of force. They can be directed at any component of the state. Armed forces can be used to conquer, destroy, or damage parts or the entirety of a state's physical base, institutions, ideas, and sovereignty. It is because of this wide range of potential threats of varying severity to the state's components that military dangers dominate the study of national security.⁸⁶

Political threats are "aimed at the organizational stability of the state."⁸⁷ They can target sovereignty, such as when a foreign state attempts to influence the policymaking of another state. They can also target national ideas, such as when an ethnic group strives to secede from a multinational state. More often, political threats target organizing ideologies. Political threats to organizing ideologies take many forms. Some are intentional, including foreign funding of revolutionary groups or 'fifth column' political parties and organizations. Others are structural. A structural political threat to ideologies arises when a significant number of people within a state embrace ideologies that are incompatible with, or at least hold contrary views to, the state's existing organizing ideology. The wave of democratization that swept Western Europe in the late nineteenth and early twentieth centuries, for instance, was a structural political threat to monarchical organizing ideologies. Similarly, the Great Depression fostered popular support for

⁸⁶ *ibid.*, 116-118.

⁸⁷ *ibid.*, 118-122.

socialist ideologies, which threatened the ideologies of liberal-democratic capitalism in Western Europe and North America. Furthermore, there are times when intentional and structural threats combine to undermine a state's organizing ideology. The Cold War confrontation between liberal-democracy and communism, for instance, fed intentional and structural political threats in both liberal-democratic and communist states. Liberal-democratic states feared the intentional promotion and structural spread of communist ideas, while communist states feared the intentional promotion and structural spread of liberal-democratic ideas.

Societal threats target national ideas.⁸⁸ For nation-states, societal threats can include the importation of foreign languages, norms, and cultural practices, as well as the mass migration of foreign peoples. In federative multinational states, societal threats can involve friction between two or more ethnic groups, or the diminution of one ethnic group's cultural practices, norms, or language. In state-nations with a civic nationality, societal threats are those that undermine or weaken adherence to established civic norms. The mass migration of ethnic groups that resist assimilation and practice culture norms that are contrary to those of the civic culture can also be perceived as societal threats to state-nations.⁸⁹

Ecological threats are human-instigated disruptions of the environment and ecosystems that harm the physical base of states.⁹⁰ Climate change, for instance, may cause irreparable harm to the resources, infrastructures, and populations of states across the globe. If ecological threats are severe and sustained, moreover, they can threaten

⁸⁸ *ibid.*, 122-123.

⁸⁹ See for instance the controversial claims made in Samuel P. Huntington, *Who Are We? The Challenges to America's National Identity* (New York: Simon and Schuster, 2004).

⁹⁰ Buzan, *People* (1991), 131-134.

institutions and ideas as well. Should climate change prove especially devastating, for example, liberal-democratic states could be forced to impose strict limits on the energy consumption and greenhouse gas emissions of individuals and firms, a decision that would dilute traditional notions of consumer freedom. Buzan denies that natural disasters and ecological changes count as national security problems, no matter how destructive their consequences. Insofar as they are part of the “natural conditions of life,” naturally occurring environmental devastations are “more a matter of fate than an issue for the national security agenda.”⁹¹

Economic threats are the last category analyzed by Buzan. Against the arguments of Knorr and Murdock, Buzan claims that insecurities caused by interdependent economic relationships should not count as matters of national security. According to Buzan, states which enter into interdependent economic relationships are aware of the risks involved. As Buzan notes, “the normal condition of actors in a market economy is one of risk, aggressive competition, and uncertainty.”⁹² Indeed, risk and competition are inherent and necessary features of the existing international liberal market. The efficiencies fostered by the liberal market would not develop if there was no risk that poorly performing industries could be surpassed by foreign competitors. Similarly, the dangers of resource denial and economic coercion are, for Buzan, risks that states freely accept when they enter into an international market economy that breeds comparative advantages. “These threats,” he insists, “all fall within the merciless norms of economic activity within a competitive market.”

⁹¹ *ibid.*, 131.

⁹² *ibid.*, 124.

Buzan accepts that economic concerns can become national security problems “when the consequences of economic threat reach beyond the strictly economic sector, into the military and political spheres.”⁹³ Stated differently, economic issues become national security concerns when they instigate military or political threats. Though there are no economic threats to national security, there are military-economic threats and political-economic threats to states. As identified by the traditionalist and mainstream schools of national security, military-economic threats arise when a state is denied or lacks supplies, resources, or technologies essential for the maintenance or deployment of its armed forces. Political-economic threats, on the other hand, occur when economic conditions give rise to threats against a state’s ideas. Economic inequalities between two ethnic groups in a multinational state, for instance, may fuel ethnic conflict and succession movements. In addition, depressions, high and enduring unemployment, and rampant inflation or poverty, can inspire popular revolutions or lead to widespread support for alternate organizing ideologies. Under such circumstances, economic conditions become national security issues, and state may seek to protect their ideas by addressing underlying economic problems.

To conclude his analysis of national security, Buzan classified the means that states use to cope with threats. Buzan demonstrated that states deal with threats in two ways, by reducing their vulnerability to threats or by confronting threats directly.⁹⁴ Vulnerability reduction measures serve to make the state’s components more resilient to threats. To reduce their vulnerability to military threats, states strengthen their armed forces. To reduce their vulnerability to political threats, states advertise the virtue of their

⁹³ *ibid.*, 126.

⁹⁴ *ibid.*, 112-116.

organizing ideologies and institutions, while highlighting the deficiencies and evils of alternate ideologies and institutional arrangements. Similarly, to reduce their vulnerability to societal threats, state's promote social cohesion and encourage adherence to cultural norms. To reduce their vulnerability to ecological threats, states enact laws and negotiate treaties that reduce the damage done to the environment. To reduce their vulnerability to military-economic threats, states strive for self-sufficiency in the production of resources, supplies, and technologies vital for maintaining or deploying their armed forces. To reduce their vulnerability to political-economic threats, states undertake economic reforms or pursue policies that reduce economic disparities, improve standards of living, or stabilize economic conditions within their borders.

Measures to confront threats aim to eliminate or severely weaken the threat itself. States confront military threats by launching attacks against an enemy's armed forces. Political threats are confronted by attacking or imprisoning radicals, revolutionaries, or secessionists, by outlawing the promotion of alternate ideologies, and by mounting counterespionage operations. Societal threats are confronted by barring the mass immigration of certain ethnic groups, by criminalizing foreign cultural practices or languages, or, in divided multinational states, by repressing or meeting the demands of discontented ethnic groups. Ecological threats are confronted by addressing the consequences of environmental devastation or disaster. Military-economic threats are confronted by economic retaliation or by using armed force to seize vital resources, supplies, or technologies. Political-economic threats, like uniquely political threats, are confronted by attacking or imprisoning radicals, revolutionaries, or secessionists, or by outlawing the promotion of alternate ideologies.

In sum, Buzan's analysis of the state posited that national security involves the protection of a state's physical base, sovereignty, ideas, and institutions. Threats to these elements come in five forms, military, political, societal, ecological, and economic. When responding to national security threats, states adopt two approaches, vulnerability reduction or threat confrontation. Compared with traditional and mainstream studies of national security, therefore, Buzan offered a richer and more holistic conception of national security, one that clarified the scope and objects of state security, as well as the nature of the threats states face.

Yet Buzan's analysis in *People, States, and Fears* was nonetheless unclear and imprecise about several aspects of national security. Foremost among these weaknesses was a lack of criteria for assessing when governments and state leaders are treating a vulnerability or a threat as a national security issue, as opposed to a non-security problem. Put differently, Buzan was largely silent about how efforts to protect national security are identified as such, and about what distinguishes national security policies from non-security policies. The task of providing criteria for identifying national security acts and differentiating them from non-security acts thus fell to Buzan's close colleague and the second major scholar of the comprehensive school, Ole Waever.

According to Waever, the power to claim that a vulnerability or threat is a matter of national security resides with the elites of a state.⁹⁵ As the personified representatives of the state, these elites, typically government leaders and officials, hold the authority to declare that the vulnerabilities and threats they perceive are national security problems. Moreover, when elites declare that a vulnerability or threat is a national security problem,

⁹⁵ Ole Waever, "Securitization and Desecuritization," in Ronnie D. Lipschutz, ed. *On Security* (New York: Columbia University Press, 1995), 54-55.

Waeber argues, these elites claim “a special right to use whatever means are necessary” to address the national security problem. It is this invocation of special rights or emergency powers by elites that distinguishes national security issues from non-security problems. Until elites declare a right to use emergency powers to meet a problem, the problem is a non-security issue.

Conversely, when elites relinquish their emergency powers, the problem that they were addressing ceases to be a matter of national security. Hence, elites have the authority to both *securitize* and *desecuritize* problems, vulnerabilities, and threats confronting their state. Although elites may abuse this authority, such as when they securitize a problem to protect their own privileges and interests, this does not change the securitizing act’s status as the criteria for identifying national security matters. Since elites are the personification of the state, the authority to name a national security problem must lie with them, even if they are prone to exploit it for their own ends. In the same way, because elites are the only group within a state that can exercise emergency powers, their perceptions of what counts as a national security matter and what does not is a critical aspect of securitization and desecuritization. In the end, they decide and only they have the authority to act against the vulnerabilities and threats.⁹⁶

For Waeber, securitization and desecuritization are necessarily linguistic acts. That is to say, elites securitize or desecuritize an issue by speaking or writing about the issue in a securitizing or desecuritizing manner. Elites cannot merely believe that a vulnerability or a threat is a national security problem. They must say or write that it is. Nor can elites simply believe that a vulnerability or threat has ceased to be a matter of national security. They must declare that it has. As Waeber stated, “The use of the speech

⁹⁶ *ibid.*, 56-57.

act [has] the effects of raising a specific challenge to a principled level, thereby implying that all necessary means [must] be used to block that challenge.”⁹⁷ Securitizing linguistic acts, then, are the criteria for identifying whether a state is treating a vulnerability or threat as a matter of national security. In turn, desecuritizing linguistic acts are the criteria for identifying when a state is not treating a vulnerability or threat as a matter of national security. It follows that the criteria for recognizing national insecurity “is a situation with a security problem” and either no securitizing act that empowers the state and its elites to respond with any means necessary, or a premature desecuritizing act that removes the state and elites power to respond with any means necessary.⁹⁸

When combined, the theories of Buzan and Waever provided a multifaceted conception of national security and criteria to determine when states are coping with national security problems. Together their work offered a comprehensive analysis of national security.

However, in spite of Waever’s contribution of criteria for identifying matters of national security, Buzan’s work was nonetheless saddled with a number of inconsistencies and questionable assertions. A first inconsistency is related to Buzan’s emphasis on the external origin of threats to national security. Throughout most of *People, States, and Fear*, Buzan was adamant that only foreign or external threats count as national security problems. Buzan insisted on this point because he clung to the idea that national security ultimately revolves around the interaction of states in an anarchic international system. Yet, in certain cases, Buzan admits that internal actors and factors can threaten state security. Indeed, he stated that “Domestic insecurities may or may not

⁹⁷ *ibid.*, 56.

⁹⁸ *ibid.*

dominate the national security agenda.”⁹⁹ A strong secessionist movement within a multinational state, for example, is a national security concern that may be entirely internal in origin.¹⁰⁰ Widespread support for an alternate organizing ideology that threatens a state’s existing organizing ideologies need not have external backing to be a national security problem. The same is true of a purely internal ecological crisis. Drawing on Buzan’s own examples and formulations, it is evident that his argument about the external nature of threats to national security does not hold. When Waever’s insights are added, the emphasis on external threats is further weakened. If elites securitize an internal threat to the state, then, by Waever’s own logic, the internal threat is a matter of national security.

Buzan’s implicit denial that structural and contingent threats can rank as national security problems is also questionable. Buzan made this point with respect to natural ecological disasters. Since natural disasters are contingent, he claimed, any insecurities that arise from them are not national security problems but merely unavoidable “conditions of life.” If this belief is extrapolated to threats in other sectors, it suggests that Buzan would deny that structural economic threats, such as the Great Depression of the 1930s, could be treated as matters of national security. This is a weak argument. Though not human in origin, massive natural disasters, including volcanic eruptions, strong earthquakes, or tsunamis, can inflict enormous damage on the physical base, institutions, or ideas of a state --so much damage that such natural disasters might be securitized. Though structural in origin, the Great Depression imperilled the organizing ideologies and institutions of capitalist states, forcing elites to take exceptional measures to combat

⁹⁹ Buzan, *People* (1991), 22.

¹⁰⁰ *ibid.*, 76.

its effects. Refusing to acknowledge that these structural or contingent threats to the state affect national security is neither analytically consistent nor plausible, especially if elites securitize them.

Buzan's third questionable conclusion is his claim that states do not experience economic insecurity because they willingly participate in a free market. This claim is historically ill-informed. States have not always willingly participated in a free international market. During the mercantilist era, Western European states strove for wealth through imperialism and autarky, not trade with their neighbours. During the Great Depression, the free market collapsed as states imposed trade barriers and pursued protectionist policies in an ill-fated effort to boost employment and strengthen national industries. During the Cold War, communist and socialist states refused to participate in the international liberal economic order established by the capitalist bloc. In all these historical cases, states were not part of a free market and national economic security was of concern. Ignoring the importance of economic security because a free market is now the norm masks the economic insecurity states faced in eras when liberal trading practices were an exception. In addition, as Buzan admitted, many smaller, and poorer states are compelled to participate in a free market system that can disrupt their internal economic stability, at least in the short term.¹⁰¹ Though these states 'willingly' enter the free market, the costs incurred can be significant enough to spark threats to their economic security, such as those to income, stability, and economic sovereignty, as identified by Murdock. If market conditions are sufficiently harsh, moreover, it is possible for wealthier states, such as those with export-dependent economies, to suffer comparable economic insecurities. Dismissing the impact of economic disruptions on the

¹⁰¹ *ibid.*, 129.

security of states because they are part of a free market is at best contentious, and at worst historically myopic and erroneous. Indeed, if elites can be shown to securitize economic threats, Buzan's reading of national economic security must be rethought.

In brief, while the comprehensive school provides the strongest analysis of national security complete to date, Buzan's emphasis on the external source threats, dismissal of unintentional and structural threats, and denial of uniquely economic insecurities must be refined to formulate a complete and consistent conception of national security and national economic security.

D) Broadened and Critical Security Studies

Following the end of the Cold War, the security studies field was redrawn and expanded by a collection of scholars who, to varying degrees and ends, questioned the underlying assumptions and premises of the traditional, mainstream, and comprehensive schools. One group of these scholars, post-modernist and post-structuralist, seek to deconstruct and dismantle the implicit power structures and metaphysical presuppositions that hide behind the idea of national security. Another group, emancipatory security scholars, work to shift the focus of security from states to individuals and their freedom. For their part, constructivist security scholars explore how states come to define threats to their security, and how identities and norms shape both the naming and response to threats against states. Lastly, in the late 1990s Barry Buzan and Ole Waever of the comprehensive school released a broadened and revised version of their theory. Different from the comprehensive school in a few key ways, their new Copenhagen school of

security studies widens the scope of their earlier work while narrowing its applicability and universality.

Post-modernist analyses of national security hold that both the state and concerns about its security are propagations of a Western metaphysical tradition which “have succeeded in marginalizing and even erasing other expressions of political identity, other answers to questions about who we are.”¹⁰² Stated differently, for post-modernist scholars, discourses of the state serve to reinforce hostile dualities, such as citizen/alien, internal/external, and we/them. In turn, discourses of state security legitimate and entrench fears of the ‘foreign’, the ‘enemy’, the ‘different’, and the ‘other’. These exclusionary alterities are inherently problematic because they erase alternative discourses that emphasize the shared humanity and common bonds of peoples, and the possibility of multiple, yet harmonious, identities.¹⁰³ Worse still, discourses of national security are also employed to justify and normalize acts of “intolerable barbarism,”¹⁰⁴ such as war, torture, racism, and imprisonment. Accordingly, post-modernist security scholars argue that discourses of the state and national security must be deconstructed to expose the intrinsic violence of state security and Western metaphysics, and allow for the flourishing of “a plurality of centres, multiple meanings, and fluid identities.”¹⁰⁵

Post-structuralist scholars maintain that the practices of state security engrain power relations and normalizing disciplines. By linking concepts such as ‘deviant’, ‘strange’, and ‘evil’ with notions of threat and danger, the state uses fears about national

¹⁰² R.B.J Walker, “The Subject of Security,” in Keith Krause and Michael C. Williams, eds. *Critical Security Studies* (Minneapolis: University of Minnesota Press, 1997), 73.

¹⁰³ James Der Derian, “The Value of Security: Hobbes, Marx, Nietzsche, and Baudrillard,” in Ronnie D. Lipschutz, ed. *On Security* (New York: Columbia University Press, 1995), 25.

¹⁰⁴ Walker, “Subject of Security,” 75.

¹⁰⁵ Der Derian, “Value of Security,” 26.

security to impose ‘normal’ or ‘correct’ behaviour and thought. Similarly, by pointing to the existence of threats to national security, the state reinforces the necessity of surveillance, control, violence, exclusion, and, more fundamentally, institutional power over individuals. To counter these security-enabled impositions of power and discipline, post-structuralists argue that the practices and discourses of state security must be subject to continual critique. Every national security pronouncement, policy, or operation must be resisted and then dissected to uncover the power structures and disciplining that lies behind it.¹⁰⁶ Although post-structuralists are unclear about what end their critiques aim to achieve beyond the dismantling of existing power structures and disciplines, they are adamant that continual critique is necessary and no impositions of power or discipline should be left unquestioned.

Emancipatory security scholars share the post-modern and post-structuralist belief in the value of critiquing the practices, assumptions, and discourses of national security.¹⁰⁷ These scholars agree with the post-modern and post-structuralist notion that national security is predicated on “a top-down, statist, power-centric, masculinized, ethnocentric, and militarized worldview of security.”¹⁰⁸ Unlike the post-structuralists, however, emancipatory security scholars are adamant that critiques of state security should have a clear end: “emancipation, that is, the progressive freeing of individuals and groups from structural and contingent human wrongs.”¹⁰⁹ To this end, emancipatory security studies question and de-legitimize the state as an object of security. The only

¹⁰⁶ *ibid.*, 27.

¹⁰⁷ Ken Booth, ed. *Critical Security Studies and World Politics* (Boulder: Lynne Rienner Publishers, 2005); Richard Wyn Jones, *Security, Strategy, and Critical Theory* (Boulder: Lynne Rienner Publishers, 1999); Richard Wyn Jones, *Critical Theory and World Politics* (Boulder: Lynne Rienner Publishers, 2001).

¹⁰⁸ Ken Booth, “Critical Explorations,” in Ken Booth, ed. *Critical Security Studies and World Politics* (Boulder: Lynne Rienner Publishers, 2005), 9.

¹⁰⁹ *ibid.*, 12.

security of value for these scholars is the security of individuals and communities, which they maintain is provided by emancipation. States and their security concerns, they posit, always obstruct individual and communal security. Hence, national security must be wholly rejected if individual and communal security is to be attained.

This emphasis on human freedom, it should be noted, further distinguishes emancipatory scholars from post-modernists. Whereas post-modernists seek to dismantle the Western metaphysical tradition, emancipatory security scholars strive to fulfill the promise of the Enlightenment. In line with the goals of the Frankfurt School of Social Research, emancipatory security scholars hold that the metaphysical, moral, and epistemological triumphs of the Enlightenment should be championed, rather than deconstructed. Those elements of the Western metaphysical tradition that promote exclusion and difference, they argue, are remnants of what the Enlightenment worked to overcome, not an extension of it.

Together, post-modern, post-structuralist, and emancipatory security studies offer salient critiques of national security. Their explanations of how state security reinforces Western metaphysics, power structures and disciplines, and perhaps prevents the advance of emancipation are worthy of consideration and debate. However, these critical perspectives are of limited use for analyzing how and why states protect themselves from perceived threats. Because they deny the legitimacy of national security itself, these perspectives do not aim to better comprehend the inner workings of state security, but instead advocate ceaseless attacks against the overarching epistemological, ontological, and political structures that enable states and their security concerns to exist. Simply put, these critical perspectives refuse to approach state security on its own terms. While this

refusal suits their particular pursuits, it ensures that post-modern, post-structural, and emancipatory theories are of limited use to those who study national security on its own terms.¹¹⁰

Constructivist security studies explore how ideational, normative, and cultural factors shape national security, as understood by the mainstream school.¹¹¹ Beginning from the premise that security is a social construction rather than a state of being, constructivists examine how identity, norms, and cultural attributes influence state understandings of what constitutes security and what qualifies as a threat. Constructivist security scholars are especially interested in the formation of ‘security communities’, defined as a group of states which come to see their security as shared and interdependent. Though constructivists contribute interesting insights to the study of state security, their focus on the military aspects of national security dilutes their utility and scope. As Steve Smith argues, the constructivists are largely contributing to, and building upon, mainstream conceptions of national security.¹¹² What is more, the constructivists’ interest in identity and culture mirrors the comprehensive school’s recognition of the ideational component of the state. Unlike the constructivists, however, the comprehensive school holds that ideational concerns are a distinct facet of national security, rather than merely one of the factors which guides the military defence of the state. As a result, the comprehensive school’s appreciation and exploration of the ideational components of state security are more complete than that of the constructivists.

¹¹⁰ Walt, “Renaissance.”

¹¹¹ Emmanuel Adler and Michael Barnett, eds. *Security Communities* (Cambridge: Cambridge University Press, 1998); Peter Katzenstein, ed. *The Culture of National Security: Norms and Identity in World Politics* (New York: Columbia University Press, 1996); Bill McSweeney, *Security, Identity and Interests: A Sociology of International Relations* (Cambridge: Cambridge University Press, 1999).

¹¹² Steve Smith, “The Contested Concept of Security,” in Ken Booth, ed. *Critical Security Studies and World Politics* (Boulder: Lynne Rienner Publishers, 2005), 38.

In 1997, Barry Buzan, Ole Waever, and Jaap de Wilde published *Security: A New Framework of Analysis*, a work which initiated the Copenhagen school of security studies. Meant to recast the theories and concepts of the comprehensive school, the book abandoned the idea of national security as a unique form of security and altered the meaning of securitization. While the Copenhagen school accepts that the state can still be a legitimate object of security, the authors moved away from the notion that national security is concerned with the protection of elements that are unique to the state.¹¹³ Instead, the Copenhagen school argued that the focus of security studies should shift from the actor being secured to the types of threats actors face. Accordingly, the Copenhagen school choose to make the threat sectors outlined in *People, States, and Fear* --the military, political, societal, economic, and environmental-- the focal point of their revised reading of security. Stated differently, rather than centering their investigations how individuals, states, and the international system are threatened, the Copenhagen school asks how threats in these five sectors affect various actors, including firms, international organizations, communities, regions, individuals, and states.¹¹⁴ Hence, while the comprehensive school treated national security as its primary area of interest, the Copenhagen approach reduces the state's security concerns to a secondary issue in the study of security writ large. Though this broadening allows the Copenhagen school to address a wider range of security topics and concerns, it does so at the expense of a precise and thorough treatment of national security. Gone from the Copenhagen approach, for instance, are detailed discussions of the elements of the state and the

¹¹³ Barry Buzan, Ole Waever, and Japp de Wilde, *Security: A New Framework for Analysis* (Boulder: Lynne Rienner, 1998), 7.

¹¹⁴ *ibid.*, 8-15.

distinction between vulnerability reduction and threat confrontation found in *People, States, and Fear*.

A second significant change from the comprehensive approach is the Copenhagen school's narrowing of securitization. In Wæver's earlier work, securitization involved the identification of threats and assumption of extra-ordinary powers by elites, usually government decisionmakers. Under the Copenhagen school's revised conception, securitization involves the naming of 'existential' threats and adoption of emergency powers.¹¹⁵ By narrowing the criteria of securitization to include only the naming of dangers that threaten the very survival of an object or actor, the Copenhagen school is excluding dangers that threaten damage but not existence. As *People, States, and Fear* noted, however, there are many threats that far below the threshold of possible annihilation. By overlooking these, *Security: A New Framework for Analysis* adopts a near-sighted understanding of security, threats, and securitization. Coupled with the abandonment of the differentiation between vulnerability reduction and threat confrontation, this thinning of securitization eliminates an enormous number of threats and countermeasures from the security lexicon. No effort is made, moreover, to explain why such a whittling of securitization's scope and criteria is analytically wise or necessary.

Security: A New Framework for Analysis further opines that acts of securitization should be avoided. For the Copenhagen school, recourse to securitization renders problems and threats more difficult to address than if they were dealt with as political issues. Because securitizing acts tend to quiet debate and give rise to extreme measures, they blind decisionmakers and publics to alternative courses of action and objective

¹¹⁵ *ibid.*, 21-25.

assessments of the threat being securitized. In addition, as admitted by Waever's earlier work, securitizing acts can be abused by elites who use the cloak of security to pursue parochial or partisan interests. While these are worthwhile observations, they indicate a turn toward normative analysis. For analyses that emphasize the importance of neutral, descriptive scholarship, such as this one, this inclusion of a normative component renders the Copenhagen approach less appealing than Buzan's and Waever's earlier work from the comprehensive school. While *Security: A New Framework for Analysis* offers an original and less radical treatment of national security than those put forth by critical scholars, it fails to improve on, and in fact weakens, the conception of national security put forward by the comprehensive school.

1.2) Refining Comprehensive Theories of National Security and National Economic Security

Of the four schools, the comprehensive school offers the most thorough, insightful, and applicable conceptualization of national security. Buzan's notion from *People, States, and Fear* that national security involves the protection of the ideas, institutions, sovereignty, and physical base of the state both encompasses and improves upon the findings of traditional and mainstream schools. His classification of military, political, societal, ecological, military-economic, and political-economic threats to the state widens understandings of how national security is endangered. Buzan's identification of the two means states employ to cope with national security threats, vulnerability reduction and threat confrontation, adds subtlety and nuance to analyses of national security policy. When Ole Waever's early work on securitization and desecuritization is coupled with Buzan's *People, States, and Fear*, furthermore, the

comprehensive school provides a incisive tool for identifying when governments treat a threat as a national security problem and when they do not. Because it accepts the legitimacy and importance of national security, the comprehensive school's conceptions of state security are more analytically useful than those offered by the various branches of critical security studies.

The comprehensive school is nevertheless plagued by questionable assumptions and assertions. First of all, contrary to Buzan's own examples, the comprehensive school stresses the external sources of threats to the state. Secondly, the comprehensive school dismisses structural and contingent threats. Third, Buzan denies that states experience purely economic insecurities because they are willing participants in a free market predicated on risk and competition. Drawing on the work of Mohammed Ayoob, Murdock, and aspects of the Western political philosophical tradition, it will be shown that these questionable assumptions and assertions must be rethought in order to arrive at more persuasive, historically accurate, and holistic conception of national security and national economic security. By refining the comprehensive school's thinking about these issues, it will be possible to construct a parsimonious framework for the analysis of national security and national economic security.

The comprehensive school's focus on external threats to national security is problematic. Beyond Buzan's inconsistent acknowledgement of internal threats to state security in *People, States, and Fear*, critics such as Ayoob have observed that many states are undermined and endangered by domestic troubles. Post-colonial and developing states in particular, Ayoob argues, are especially vulnerable to internal attacks against their ideas, institutions, and physical bases. Rivalries among ethnic groups,

popular revolts against authoritarian leaders, and conflicts over wealth and resources have imperiled the security of these states. “These states’ major security preoccupations,” he notes, “are primarily internal in character and are a function of the early stages of state making at which they find themselves.”¹¹⁶ For Ayoob, Buzan’s emphasis on external threats is unfounded and biased in favour of the experiences of developed, Western states.

Yet it is unclear why Ayoob’s critique does not apply to all states, including the developed. While developed states are today relatively free of internal insecurities, this has not been the case historically. Nor is there any guarantee that developed states will be internally secure in the future. If elites in developed states can be shown to securitize internal threats, then, following Waeber, internal insecurities can be a matter of national security. Accordingly, for the sake of generality, consistency, and cross-historical applicability, the comprehensive school’s emphasis on external threats to national security must be abandoned. In its place, a refined conception of national security should hold that states can face both internal and external security threats. None of the comprehensive school’s insights are lost by acknowledging the possibility of internal threats. On the contrary, as Ayoob’s work shows, Buzan’s work is strengthened by the acknowledgement of internal threats to national security. Above all, recognizing internal security threats resolves the inconsistencies regarding internal and external threats in *People, States, and Fear* and ensures that Buzan’s theories can be applied to all states, developed and developing, as well as to all eras and locations where states have existed. What is more, recognizing the possibility of internal threats releases the comprehensive

¹¹⁶ Mohammed Ayoob, “Defining Security: A Subaltern Realist Perspective,” in Keith Krause and Michael C. Williams, eds. *Critical Security Studies* (Minneapolis: University of Minnesota Press, 1997), 121.

school from inconsistencies that arise when elites securitize internal insecurities. In Ayooob's words, national "security and insecurity is defined in relation to vulnerabilities, both internal and external, that threaten to, or have the potential to, bring down or significantly weaken state structures, both territorial and institutional, regimes."¹¹⁷

Buzan's implicit rejection of structural and contingent threats must also be rethought. Political thinkers from ancient to modern times, including Aristotle, Augustine, Machiavelli, Hobbes, and Nietzsche, have recognized that time, chance, and circumstance make the human condition one of inherent insecurity. Regardless of how strong or prudent humans are, contingency always has the power to throw humans into perilous and frightful situations. Augustine, for instance, noted that what ultimately separates the eternal world of the divine from the fallen temporal world of humans was the continuous flux, change, and contingency that plagued an earthly existence.¹¹⁸ Aristotle argued that chance and contingency could undermine an otherwise virtuous and fulfilled life.¹¹⁹ Machiavelli observed that the human tendency to seek power was rooted in the desire to overcome *fortuna*, the inescapable chance and contingency of nature and time.¹²⁰ For his part, Nietzsche held that salvation lay in embracing the unavoidable ravages of time and contingency, an outlook he called *amor fati*, the love of fate.¹²¹

While these philosophers were speaking about the insecurity contingency imposes on individuals, their insights apply to states as well. Like individuals, states inhabit a temporal world of chance, flux, and uncertainty, and as with individuals, states take

¹¹⁷ *ibid.*, 130.

¹¹⁸ Augustine, *The City of God*, trans. R.W. Dyson (Cambridge: Cambridge University Press, 2002).

¹¹⁹ Aristotle, *The Nichomachean Ethics*, trans. Martin Ostwald (Indianapolis: Bobbs-Merrill, 1962).

¹²⁰ Niccolo Machiavelli, *The Prince*, trans. Harvey C. Mansfield (Chicago: University of Chicago Press, 1998).

¹²¹ Friedrich Nietzsche, *The Gay Science*, trans. Walter Kaufman (New York: Vintage, 1974).

precautions to protect themselves from the negative effect of these forces. But, again like individuals, states cannot guard against all infinite possibilities of unpredictable contingency. As former American secretary of defense Donald Rumsfeld opined, state security can be imperiled by a multitude of contingent threats: “as we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns -- the ones we don't know we don't know. And if one looks throughout the history of our country...it is the latter category that tend to be the difficult ones.”¹²² Though Rumsfeld was referring to planned terrorist attacks against the United States, his statement captures the reality that the security of states can also be endangered by purely contingent threats --unintentional or circumstantial unknown unknowns. Natural disasters, unexpected economic crises, the spread of a pandemic disease, or the accidental launching of a nuclear weapon are examples of possible contingent unknown unknowns that can threaten national security.

Structural threats imperil the security of states as well. Broadly defined, a structural threat is a threat that arises due to the construction of a system or the interaction between parts of a system. As a simple but telling example, weak foundations are structural threats to buildings. Alternatively, in the interaction between a parasite and a host, the parasite can spark a structural threat to its own existence by unwittingly killing the host upon whom it depends for survival. More specifically, structural threats to individuals are generally classified under the rubric of ‘structural violence’, wherein “persons are harmed, maimed, or killed by poverty, unjust social, political, and economic

¹²² United States, Department of Defense, *Transcript of Rumsfeld briefing*, 12 February 2002.

institutions, [or] systems.”¹²³ In such cases, it is the common interaction between the individual and the state, or the individual and society, that endangers the individual. Building on this notion of structural violence, states are also subject to a type of structural violence when systemic factors breed military, political, societal, ecological, or economic threats against them. The security dilemma is the prototypical example of a structural threat to states. In their effort to build its military defences against attack in an anarchic system, a state increases its insecurity by prompting other states to enhance their military strength in kind. A similar structural threat to states arose during the Great Depression. To counteract the initial effects of the depression, states enacted protectionist policies, which led other states to do the same. As a result, world trade and commerce declined significantly, worsening the depression and its impact on states. Though they cannot be retraced to identifiable agents or actors, structural threats are a source of insecurity for states.

The comprehensive school’s rejection of national economic insecurity is a third assumption that must be reevaluated. As argued above, the claim that states cannot experience economic insecurities because they are willing participants is open to five critiques. First, states have not always embraced a free market and liberal trading norms. In the mercantilist era and interwar period, illiberal philosophies guided the economic policies of states. Furthermore, some states resisted, rejected, or fought the idea of liberalized trade. Both China and Japan resisted opening their markets in the nineteenth century, and the communist bloc was operated separately from the free market established by the capitalist bloc during the Cold War. More importantly, in mercantilist,

¹²³ Gernot Kohler and Norman Alcock, “An Empirical Table of Structural Violence,” *Journal of Peace Research* 13 (1976)

protectionist, and communist states, economic considerations were closely tied to national security. Mercantilist states believed that a self-sufficient empire was vital to their survival, power, welfare, and economic stability,¹²⁴ protectionist states held that a closed market was essential to their development, strength, and wealth.¹²⁵ The Soviet Union, meanwhile, understood that its survival and ability to compete with the United States was tied to its economic stability, industrial productivity, and wealth.¹²⁶ Indeed, it is widely accepted that the Soviet Union's disintegration was brought on by an internal economic collapse. Denying that these states perceived their economic concerns as matters of national security because liberal trading practices are now the norm is at odds with the historical record and analytically shallow. Next, as Buzan admitted, developing states' willingness to participate in the free market is at times tentative and often disrupts their economies. For these states, the inherent risks and competition of the free market can be a source of insecurity. As argued by scholars in the field of international political economy, many developing states have been locked into dependent economic relationships, and have seen their resources exploited and their indigenous industries stunted when they embraced liberal trading practices.¹²⁷ In fact, dependency theorists have argued that the international liberal capitalist system functions by subjugating peripheral states to the economic imperatives of the wealthier core.¹²⁸ This suggests that the free market can do structural violence to the economies of peripheral states. Recent efforts by developing states to reverse or stall the pace of economic liberalization

¹²⁴ Gilpin, "Economic Interdependence," 27-30.

¹²⁵ *ibid.*, 39-42.

¹²⁶ Herbert Block, "The Economic Basis of Soviet Power," in Edward N. Luttwak, *The Grand Strategy of the Soviet Union* (New York: St. Martin's, 1983), 119-175.

¹²⁷ Fernando H. Cardoso and Enzo Faletto, *Dependency and Development in Latin America*, trans. Marjory M. Urquidí (Berkeley: University of California Press, 1979).

¹²⁸ Immanuel Wallerstein, *The Modern World-System I* (San Diego: Academic Press, 1974).

indicates that there is growing dissatisfaction with, and perhaps fear of, the operations of the free market.¹²⁹ The findings of dependency theory and the emergence of new modes of protectionism suggest that, at the very least, many states do not view the free market as benign or merely risky; arguably, certain developing states believe liberal trading practices pose a threat to their national economies and welfare.

Developed states also confront insecurity born of their participation in the free market. Buzan is correct in stating that a liberal market is predicated on risk and competition, but if the consequences of participating in the market are too severe and damaging, even states who typically benefit from free trade can feel threatened. This was the key insight of the traditionalist school's studies of interdependence and national economic insecurity.¹³⁰ Whether intentionally or unintentionally instigated, a sustained or rapid loss of vital supplies, markets, technologies, and energy sources can inflict significant harm on a state's wealth, productivity, and stability. As argued by Murdock, structural economic threats, such as waves of mass inflation and unemployment that spread across an interdependent liberal market, can be experienced as significant dangers to national security.¹³¹ Simply put, though states accept a degree of risk in a free market, hardships, vulnerabilities, and deprivations states encounter in an interdependent market can count as matters of national security if they are sufficiently acute, lasting, or rapid.

The United Nations' recognition of the coercive power of economic sanctions and the historic use of blockades as weapons of war demonstrates that economic considerations affect state security. Even when blockades and sanctions failed to rob

¹²⁹ Sandra Polaski, *Winners and Losers: The Impact of the Doha Round on Developing Countries* (Washington: Carnegie Endowment, 2006); Joseph Stiglitz, *Globalization and its Discontents* (New York: Norton, 2003).

¹³⁰ Knorr and Trager, eds. *Economic Issues and National Security*.

¹³¹ Murdock, "Economic Factors as Objects of Security," 67-74.

targeted states of resources or goods essential for the maintenance of armed forces, it was understood that their purely economic effects hurt the targeted state. The underlying logic of both blockades and sanctions is that the economic insecurities they cause can be sufficiently intense to compel targeted states to change their behaviour. Accordingly, the historic employment of blockades and continued use of sanctions further indicates that states face economic insecurities.

Finally, in line with Waeaver's early theory of securitization, economic threats must count as matters of national security if elites securitize economic threats to their state. To deny this assertion would invalidate Waeaver's entire theory; either securitization indicates when problems are national security concerns or it does not. Consequently, if elites name economic problems as national security issues and undertake exceptional measures or assume emergency powers to cope with these problems, it must be assumed that states confront economic threats, and that states have economic components that are susceptible to threats.

In sum, by widening Buzan's conception of national security to include the recognition of internal threats, contingent threats, structural threats, and economic threats, the comprehensive school's understanding of national security is rendered more persuasive, holistic, and generalizable. This refined version of the comprehensive school's notion of national security is applicable to all modern states and all modern international economic orderings. In addition, this refined reading of national security better appreciates the relevance of threats that emanate from within states, from contingency, and from structures. This adaptation of the comprehensive school asserts

that, regardless of whether they participate in a free market, states encounter economic threats and suffer from economic insecurities.

Before arriving at a complete conception of national security and national economic security, however, the elements of a state that are susceptible to economic threats must be identified and analyzed. It is here proposed that alongside ideas, institutions, sovereignty, and a physical base, states are also composed of an economic base, and that it is this economic base that is vulnerable to economic threats.

States' economic bases are made up of three parts: income and wealth, human and technological capital, and agricultural/industrial/manufacturing productivity. National incomes and wealth refer to both the levels and distribution of income and wealth within states.¹³² As argued by Murdock, these are threatened when income and wealth levels are subject to massive erosion or when their distribution are rapidly and radically altered.¹³³ Among the forces that threaten incomes and wealth levels and distributions are inflation, depressions, mass unemployment, or the closure of vital export markets. Vulnerability reduction policies states can pursue to insulate themselves from such threats include substantial public investments to guard against severe economic downturns and mass unemployment, strict monetary policies to weaken inflation, and subsidizing export markets. Keynesian economic practices can be an example of such vulnerability reducing policies. Threat confrontation policies that states enact to eliminate threats to income and wealth include the introduction of price and wage controls to cap inflation, placing industry under the control of the state to break a depression or lingering recession, and using coercive means to open closed or closing foreign markets. Examples of such

¹³² *ibid.*

¹³³ *ibid.*

policies include the introduction of price controls by the United States government between 1971-1973 to curb inflation, the United Kingdom's post-Second World War industrial nationalizations, designed to help elevate British incomes, and what Andrew Bacevich describes as the United States' grand strategy of 'openness', which has sought "the removal of barriers to the movement of goods, capital, people, capital, and ideas, thereby...satisfying the expectations of the American people for ever-greater abundance."¹³⁴

Human and technological capital refers to a state's ability to keep pace with educational advances and technological innovations that enhance or maintain its relative economic efficiency and growth.¹³⁵ These can include advances in transportation, health, communication, informational, resource-extraction, energy, and engineering technologies and capacities. Falling quickly, or far, behind in human and technological capital can reduce a state's competitiveness, access to markets, and foreign investments, which in

¹³⁴ Andrew Bacevich, *American Empire* (Cambridge: Harvard University Press, 2002), 88. For a similar argument, see Christopher Layne, *The Peace of Illusion: American Grand Strategy from 1940 to the Present* (Ithica: Cornell University Press, 2006).

¹³⁵ The concept of human capital and its role in national economies is overviewed in the following: Andrew Gunder Frank, "Human Capital and Economic Growth," *Economic Development and Cultural Change* 8 (1960); Theodore W. Schultz, "Investment in Human Capital," *American Economic Review* 51 (1961); Burton A. Weisbrod, "The Valuation of Human Capital," *Journal of Political Economy* 69 (1961); Gary S. Becker, "Investment in Human Capital: A Theoretical Analysis," *Journal of Political Economy* 70 (1962); B.F. Kiker, "The Historical Roots of the Concept of Human Capital," *Journal of Political Economy* 74 (1966); Robert G. King and Sergio Rebelo, "Public Policy and Economic Growth: Developing Neoclassical Implications," *Journal of Political Economy* 98 (1990); John Laitmer, "Long-run Growth and Human Capital," *Canadian Journal of Economics* 26 (1993); Robert J. Barro, "Human Capital and Growth," *American Economic Review* 91 (2001). On the intertwined relationship between human capital and technological development, especially in developing countries, see Tuomas Saarenheimo, "Trade, Human Capital Accumulation and Growth in an Underdeveloped Economy," *Scandinavian Journal of Economics* 95 (1993). For a quasi-securitizing reading of the importance of human capital for states, see Theodore Hershberg, "Human Capital Development: America's Greatest Challenge," *Annals of the American Academy of Political and Social Science* 544 (1996). For an overview of the relationship between technology, human capital, and economic growth and welfare, see Joel Mokyr, "Long-term Economic Growth and the History of Technology," in Philippe Aghion and Steven N. Durlauf, eds. *Handbook of Economic Growth*, vol. 1B (North Holland: Elsevier, 2005). A review of how a lack of human and technological capital hinders states' economic welfare, see Costas Azariadis and John Stachurski, "Poverty Traps," in Philippe Aghion and Steven N. Durlauf, eds. *Handbook of Economic Growth*, vol. 1B (North Holland: Elsevier, 2005).

turn can diminish national income, wealth, and productivity. Threats that may trigger dangerous lags in human and technological capital include deficiencies in a national education system, large-scale emigrations of educated classes, or the withholding of certain technologies and information by other states or the international community. Vulnerability reduction policies pursued to guard against these threats include large-scale or rapid reforms of education systems, emergency measures to slow the emigration of educated citizens, and significant research investments to develop a specific technology. Examples of such vulnerability reduction measures include efforts by less-developed countries to slow 'brain drains' to wealthier developed states and strict emigration laws, such as those imposed by the Soviet Union prior to the 1970s.¹³⁶ Threat confrontation policies to protect human and technological capital include forbidding the emigration of educated citizens, buying of desired technologies on black markets or through secret negotiations, and the launching of industrial, technological, and commercial espionage operations. Recent increases in state-sponsored corporate espionage demonstrate the importance that governments ascribe to sustaining their technological capacities.¹³⁷

Agricultural/industrial/manufacturing productivity is the third component of states' economic base. Acting as the engine of economic output in most states, productivity in these sectors often serves as the foundation of national income, wealth, employment, and military strength.¹³⁸ A sharp or sustained decline in agricultural, industrial, or manufacturing output can imperil national security and the entire economic

¹³⁶ For examples and details see Lena Sin, "Canada named culprit in China's brain drain," *Vancouver Province*, 4 March 2007; Devesh Kapur and John McHale, *Give Us Your Best and Brightest: The Global Hunt for Talent and Its Impact of the Developing World* (Washington: Brookings Institution, 2005); Victor Zaslavsky and Robert J. Brym, *Soviet-Jewish Emigration and Soviet Nationality Policy* (New York: St. Martin's Press, 1983).

¹³⁷ Ira Winkler, *Corporate Espionage: What It Is, Why Its Happening to Your Company, What You Must Do About It* (Rocklin, CA: Prima, 1999).

¹³⁸ Morgenthau, *Politics Among Nations*, 127-139.

base of a state. Threats to production in these sectors are numerous and multifaceted. Natural disasters can ravage agriculture. High energy costs can raise production costs, forcing firms to close or curtail production. Raw materials required to manufacture finished products can be deliberately withheld or increase significantly in cost, harming key manufacturing sectors. Large, widespread, and sustained strikes can cripple critical industries and manufacturing sectors. Vulnerability reduction policies pursued to protect production levels may include the research of alternative energy sources, the stockpiling of key materials and foodstuffs, and labour law reforms to lessen the number and severity of work shortages. After the OPEC crisis, for instance, the United States created a ‘strategic oil reserve’ to reduce its vulnerability to future petroleum embargoes.¹³⁹ Threat confrontation policies to eliminate threats to productivity include using force to seize short energy supplies or raw materials, temporary energy subsidies, emergency government assistance to critical industries and agriculturalists, the deployment of police or military forces to break strikes, and the outlawing of strikes in critical industries.

All told, adding economic bases to Buzan’s conception of the state illuminates which element of a state are susceptible to economic threats. Grouping together states’ essential economic attributes, the economic base is fundamental to national security. States whose income and wealth evaporate, which leak or cannot sustain their human and technological capital, or whose agricultural/industrial/manufacturing productivity markedly diminishes are undoubtedly weakened and damaged. While this type of damage to states may not equal the destruction brought on by a full-scale military conquest, it can be comparable to the insecurity states encounter when their ideas, institutions,

¹³⁹ United States, Department of Energy, Strategic Petroleum Reserves, *Strategic Petroleum Reserve-Profile*; available at <http://www.fossil.energy.gov/programs/reserves/spr/index.html>

sovereignty, or some portion of their physical bases are compromised. What is more, if elites securitize the protection of their state's economic base, then, following Waever, significant threats to the economic base count as matters of national security.

Having refined the comprehensive school's conception of national security and included the economic base to Buzan's reading of the state, a complete framework for the study of national security and national economic security emerges. The framework proposes the following:

- National security involves the protection of the idea of the state, the institutions of the state, the sovereignty of the state, the physical base of the state, and the economic base of the state.
- Threats to these components of the state are classified into seven sectors: military threats, political threats, societal threats, ecological threats, military-economic threats, political-economic threats, and economic threats.
- These threats can be either internal or external, and human, structural, or contingent in origin.
- Elites identify threats to national security by performing linguistic acts of securitization, which involves naming a threat and commandeering extraordinary/exceptional powers to address this threat.
- Governments address threats in two ways: vulnerability reduction (strengthening the state's resistance to threats) and threat confrontation (eliminating threats).

To confirm the theoretical assumption and analytical salience of this framework, it must be applied to a case. The case chosen here is that of Canada between 1943-1948. It was chosen according to several criteria. First, to demonstrate the framework's insightfulness, the case needed to be 'hard', one where the evidence sought is not expected, self-evident, or widely recognized in the literature. Second, the case should be atypical to show that the framework is widely applicable. Third, to show that national security threats can be internal and structural in origin, the case should include threats of this type. Canada between 1943-1948 meets these criteria.

According to most historical accounts, Canada enjoyed a period of unprecedented security and prosperity in the immediate aftermath of the Second World War, making the case a 'hard' one. As a middle power that grew economically during the Second World War and residing next to the world's undisputed superpower, postwar Canada is an atypical example of a state that would be especially concerned with its national security and national economic security, in particular. Next, when anticipating threats to Canadian security after the war, Canadian decisionmakers worried about internal and structural threats in the political and economic sectors. Finally, archival research demonstrates that Canadian decisionmakers securitized purely economic threats to Canada's economic base between 1943-1948.

1.3) Canada, 1943-1948: A National Economic and Political Security Case Study

Canadian decisionmakers perceived a number of economic and political-economic threats to Canada's national security between 1943-1948. Targeting Canada's economic base and organizing ideology, these multifaceted threats were both structural

and intentional, as well as internal and external, in origin. To address these threats, the government of prime minister William Lyon Mackenzie King implemented three sets of policies that involved threat-confrontation and vulnerability-reduction measures. These policies, furthermore, were exceptional measures enacted and implemented under the auspices of legislation that ceded emergency powers to the executive branch of the Canadian federal government.

As the Second World War was coming to a close, Canadian decisionmakers believed that Canada's economic base would be threatened by a myriad of interconnected economic threats at war's end. Inflationary pressures born of wartime economic mobilization and production threatened to erode Canadian incomes and wealth when hostilities ceased. These inflationary pressures threatened to push the Canadian economy into recession or depression following the war. Indeed, many economists and government officials feared that Canada would be mired in a postwar recession or depression with or without this inflationary push. Once in a recession or depression, decisionmakers further worried that low private investment, insufficient aggregate demand, and labour unrest would prevent the Canadian economy from rebounding, meaning that Canada would be unable to marshal the economic resources and initiative required to escape from such an economic morass. Gripped by recession or depression, Canadian industrial and manufacturing productivity would then markedly decline, private investment would essentially cease, and the ranks of the unemployed would swell massively, greatly diminishing Canadian incomes and wealth, and making economic recovery evermore unlikely. These threats and their effects promised to significantly damage Canada's economic base, leaving the Canadian state in a condition of deprivation, instability, and

debased income, wealth, and productivity, all of which would render Canada economically insecure.

Decisionmakers feared these threats and outcomes for two reasons. Inflationary pressures had pushed Canada into recession following the First World War. While steps had been taken to prevent a recurrence of the previous war's inflationary perils, decisionmakers realized that the factors breeding inflation were stronger and more prevalent during the Second World War. What was more, the Canadian government would be unable to fully contain inflationary pressures originating from the United States. Second, many analysts from within and outside the government were convinced that the end of war would return Canada to depression. Canada had escaped the depression of the 1930s because of the economic mobilization and investments required to wage total war; left to its own devices, the free market and private sector had been incapable of fully lifting the economy out of the depression. Several prominent economists were convinced that modern capitalist economies were inherently structured to fall into, and remain imprisoned in, depressions. Once war production and employment ceased, the Canadian economy would tumble back into the economic quagmire of the 1930s. Even those decisionmakers who doubted that a postwar depression was likely understood that a strong recession would likely occur unless steps were taken to maintain steady levels of private investment and production after the Second World War ended.

Hence, to safeguard Canada's economic base in the aftermath of the war, decisionmakers recognized that decisive actions were needed to contain inflation, prevent a relapse into recession or depression, and boost or supplement private investment. This was deemed essential to protect Canada's income and wealth levels, prevent mass

unemployment, and preserve the state's industrial and manufacturing productivity. The aim of these policies was to conserve the prosperous and stable economy Canada had built in wartime, which was fundamental to the welfare of the Canadian economic base and thus Canada's national security.

Canadian decisionmakers also feared that a postwar economic downturn would breed a political-economic threat to Canada's organizing ideology. From Confederation to the beginning of the Second World War, the organizing ideology of the Canadian state was liberal-democratic capitalism. During the Great Depression, however, Canadians' faith in liberal-democratic capitalism had been shaken. Not only had the depression seemed to have been instigated by the operations of the free market, but the capitalist system had been incapable of lifting Canada out of destitution. Faced with this apparent failure of capitalism, many Canadians had become attracted to alternate organizing ideologies, such as social credit, statism, and socialism.

After the war began, the credibility of socialist and statist ideas rose. Once the Canadian government was forced to manage and invest in the economy to prosecute total war, the depression ended, unemployment evaporated, and Canadians living standards improved for the first time in a decade. This suggested that socialist/statist answers to the depression had been correct all along: the solution to capitalism's failure was a planned economy, large government investments and expenditures, and state control of key industries. Though the planned wartime economy was predicated on the usurpation of traditional liberal-democratic freedoms, such as the right of firms to set prices, labour mobility, and consumer choice, the abandonment of these liberties was a small sacrifice compared with the benefits of higher living standards, full employment, and economic

growth and stability. When the peace appeared on the horizon in 1943, many Canadians were prepared to support policies, platforms, and political parties that promised to continue the planned economy in peacetime. Support for the socialist Cooperative Commonwealth Federation rose especially high in public opinion polls. Above all, Canadians were determined to prevent a return to unfettered capitalism and the low living standards and personal economy insecurities they associated with its failures.

For Canada's decisionmakers, this public embrace of statist/socialist ideas was alarming. As the guardians of Canada's organizing ideologies and believers in the free market and liberal-democracy, these decisionmakers were determined to return Canada to a liberal-democratic capitalist ordering at war's end. The wartime planned economy had been a necessity born of total war, not an abandonment in the fundamental principles of the Canadian state. Likewise, these leaders feared that the ascendance of socialism would bring Canada to the brink of economic ruin. As part of the wartime economy, the government had worked with the private sector; Ottawa had not tried to supplant private industry as the engine of the Canadian economy. Were the economy placed under permanent planning, Canadian leaders feared that the result would be economically disastrous over the long-term. Even the retention of a few intrusive government controls would sully Canada's liberal-democratic heritage and perhaps allow socialist ideas to take root, which could obstruct and eventually reverse the revival of a free market in Canada. Canadians' embrace of socialist ideas was, therefore, perceived as a political-economic threat to Canada's organizing ideologies. Decisionmakers recognized that, as a matter of national security, the public would need to be weaned away from socialism and

convinced that liberal-democratic capitalism could preserve their wartime living standards and personal economic security.

To restore Canadians' faith in the free market and protect Canada's organizing ideologies, decisionmakers recognized that the public would have to be shown that a capitalist economy could be prosperous and stable, and that capitalism was not inherently prone to recession, depression, or failure. The government would need to demonstrate that liberal-democratic capitalism 'worked'. More precisely, to prove the value of the free market, Canada's wartime economy would not only have to be reconstructed along capitalist lines, it would also have to be prosperous and stable enough to maintain Canadians' wartime living standards and employment levels. Hence, the response to the political-economic threat to Canada's organizing ideologies was nearly the same as the solution to the threat against Canada's economic base, namely, a prosperous and stable postwar economy --except that, to ensure the safety of Canada's organizing ideologies, this prosperous and stable economy would necessarily need to be capitalist and liberal-democratic. Insofar as Canada's political-economic security depended on the same outcome as the protection of the Canadian economic base, the preservation of the state's organizing ideologies would be hindered by an additional set of threats, those that undermined Canada's economic security --namely, mass inflation, followed by deflation and deep recession sustained by insufficient aggregate demand, stifled investment, labour unrest, and mass unemployment. Those policies pursued to secure Canada's organizing ideologies would mirror those undertaken to protect the state's economic base.

The King government pursued three sets of reconstruction policies. Though different in focus and approach, each was designed to ensure that the postwar economy

was prosperous and stable and that a liberal-democratic capitalist system was reinstated soon after hostilities ceased. First were reform policies. Drawing on the economic theories of John Maynard Keynes, the reformist approach to reconstruction sought to reduce the Canadian economy's vulnerability to business cycle fluctuation and confront the threats of mass unemployment, recession, and depression by lifting the level of aggregate demand and investment in the postwar economy. To reduce the Canadian economic base's vulnerability to business cycle fluctuations, proponents of the reformist approach urged the King government to embrace the Keynesian notion of counter-cyclical budgeting. Reformists advocated a large-scale program of public investments and initiatives to boost purchasing power and overall aggregate demand.

Reconversion was the second, and essential, component of reconstruction. Aiming to reconstitute a peacetime, liberal-democratic capitalist economy in the shortest time possible, reconversion policies also sought to guard the postwar economy against mass unemployment, recession, and depression. The reconversionist answer to these threats, however, differed from that of the reformists. Critical of the reformists' large-scale public expenditure programs, reconversionists believed that postwar stability and prosperity would be best attained by encouraging private investment, which would spur industrial reconversion, modernization, and expansion. This, in turn, would reduce shortages that exacerbated inflationary pressures, provide employment for war workers and veterans, and increase aggregate demand in the Canadian economy without recourse to public investment initiatives.

Stabilization policies were the third set of reconstruction measures. Meant to confront the threat of inflation during the war and the immediate postwar period,

stabilization policies were designed to reduce the postwar economy's vulnerability to inflationary pressures as Canada reconverted to a peacetime economy. Among the measures implemented under the auspices of the stabilization program were price and wage controls, subsidies, rationing, and other fiscal and monetary policies that attempted to hold down inflation. The managers of the stabilization program also helped oversee and direct the process of decontrol that accompanied Canada's reconversion to peacetime production.

Not simply routine economic measures, all three of these reconstruction policies were pursued under the auspices of the War Measures Act and the National Emergency Powers Transition Act. The latter, in particular, emphasized that the executive branch of the federal government required the authority to pursue extra-ordinary fiscal and economic policies to preserve the "security, defence, peace, order and welfare" of Canada. The King government recognized that reconstruction came with "attendant dangers and responsibilities for the nation as a whole," --dangers which necessitated that the postwar years be treated as an "exceptional condition" requiring exceptional remedies.¹⁴⁰

While the King government understood that reconstruction was a matter of national security, there were incompatibilities among the three sets of reconstruction policy. While all in the King administration agreed that stabilization was vital for the success of reconstruction, proponents of reform and reconversion clashed over the degree of government intervention in the postwar economy. Whereas reformers were convinced that a substantial level of government intervention was needed to prevent a postwar economic disaster, advocates of reconversion were adamant that Ottawa's principal

¹⁴⁰ LAC, MG26, series J4, vol. 420, "National Emergency Powers Act," 28 August 1945.

function was to assist and facilitate private investment. This differing view of the government's role in reconstruction meant that reform and reconversion policies could not work in harmony. One of the two approaches had to prevail.

Between 1943-1945 factions within the King government debated whether to follow a reformist or strictly reconversionist approach to reconstruction. While reformers made gains in 1943-44, in late 1944 and 1945 strict reconversion prevailed and advocates of reconversion and stabilization set the reconstruction agenda from that point forward. Reconversion policies quickly proved their worth after the Second World War ended in August 1945. Employment, peacetime production, and national income steadily increased after hostilities ceased, ushering in a period of remarkable prosperity. Stability, however, proved harder to secure. Though reconversion policies ensured that the postwar economy was prosperous and that Canadians' wartime standards of living were maintained, between 1945-1948 mounting inflationary pressures threatened to derail reconstruction, spark dangerous levels of social and labour unrest, and wreck Canada's economic fortunes. As a result, the King government continued to securitize the threat posed by inflation and Ottawa worked to overcome excess inflation. In the end, the Canadian government's battle against inflation was only partially won. Severe inflation did seize Canada in 1947-48, though by this time the postwar economy was sufficiently robust to withstand an inflation-induced fall into recession or depression. By late 1948, the King government was satisfied that the threats to Canada's organizing ideologies and economic base had been overcome, allowing for a desecuritization of the postwar economic transition.

Canada between 1943-48 provides a revealing case of a national security response to political-economic and purely economic threats to a state. Perceiving dangers that threatened to severely undermine Canada's organizing ideologies and economic base, Canadian decisionmakers adopted a securitizing discourse that allowed the federal government to assume extra-ordinary powers authorizing the enactment of policies that confronted and reduced Canada's vulnerabilities to these threats. While the dangers confronting the economic base and organizing ideologies did not pose an existential danger to the Canadian state, they were a national security concern nonetheless.

Following the framework outlined above, the criteria for an issue to be treated as a matter of national security is not that it poses an existential or military threat, but that leaders identify the threat as a national security problem and exercise exceptional powers to either confront the threat in question or reduce their state's vulnerability to the threat. Seen from this vantage point, the Canadian government's concerns about the postwar economy and approach to reconstruction between 1943-48 represented a matter of national security for the Canadian state.

Chapter 2

Securitizing Canadian Postwar Reconstruction

An Allied victory over the Axis powers appeared on the horizon in 1942-43. In June 1942 the United States won a decisive battle over the Japanese navy at Midway, reestablishing American dominance in the Pacific. Six months later the Soviet army stopped the German invasion of Russia at Stalingrad. Following a gruelling, blood-soaked confrontation, the last vestiges of the German Sixth Army surrendered on 2 February 1943, marking the beginning of a counter-offensive which culminated in the Soviet capture of Berlin in the spring of 1945. Between November 1942-May 1943, meanwhile, British and American forces expelled Axis units from Northern Africa, setting the stage for an Allied landing in Sicily in July. In part because of the efforts of the 1st Canadian Division, Axis forces evacuated Sicily in August 1943 and an Allied landing on the Italian mainland began the next month. Though most recognized that the hardest part of the war lay ahead, these battlefield successes led to serious considerations of postwar reconstruction policies by Allied governments and their citizens, Canada's included.

Perceptions of political-economic and economic threats were at the forefront of Canadian government thinking about postwar reconstruction. From 1943 to the end of hostilities in 1945, politicians and bureaucrats in Ottawa debated and devised reconstruction policies aimed at confronting, and reducing Canada's vulnerability to, threats to the state's economic base and the organizing ideologies of liberal-democratic capitalism. Partially driven by partisan politics, the aim of ensuring that Canada entered

the postwar world as a liberal-democratic, capitalist state with a stable economic base was equally a matter of national security. War had demanded that the Canadian government adopt emergency authoritarian powers and a planned economy. Doing so permitted Canada to help its allies meet the immediate physical, economic, and ideological threats posed by the Axis powers. With the defeat of the Axis looming, however, decisionmakers in Ottawa asserted that the exigencies of war could not be allowed to undermine the ideological foundation and economic stability of the Canadian state. Otherwise, Canada might win the war but lose the peace. Put differently, decisionmakers understood that, once the battle against the military threats posed by Nazi Germany and Imperial Japan was won, a second, more nuanced campaign would have to be waged against an unarmed assault on Canada's economic foundations and ideological character.

Posing a political-economic challenge to Canada's organizing ideologies were Canadians themselves. The planned wartime economy and authoritarian powers of the Canadian government had delivered them from the worst crisis of their lifetimes, the Great Depression. Fearing that peace would throw them back into desperate conditions, a significant number of Canadians looked favourably on socialist political parties who promised to continue a planned economy in peacetime. Given the nature of the Canadian constitution and the requirements of effective economic planning, a planned peacetime economy would necessarily involve an extension of certain wartime authoritarian powers, which would constitute a weakening of liberal-democratic principles in favour of socialist ones. To reduce the vulnerability of Canada's organizing ideologies to this political-economic threat, and to lure Canadians away from socialism and back towards capitalist

liberal-democracy, decisionmakers realized that the public had to be shown that a market economy would fulfill their needs, provide them with a sense of personal economic security, and not relapse into recession or depression. Simply put, to preserve Canada's liberal-democratic, capitalist regime, decisionmakers recognized that the Canadian government had to reconstruct a functional market economy, one that would keep people employed, and be both prosperous and stable.

In essence, this meant that the security of Canada's organizing ideologies was predicated on the protection and health of the Canadian economic base. Yet the postwar economic base was perceived to be threatened as well. Economic threats endangering the Canadian economic base were twofold. Inflation was the first of these. An endemic feature of wartime economies, inflation threatened to undermine the stability, income, and employment level of the postwar economy if left unchecked. Perceived flaws in the functioning of market economies were a second threat confronting the economic base. Economists working for the Canadian government believed that market economies were inherently inclined to gravitate towards recessions and depressions. Moreover, once in a recession or depression, market economies were poorly equipped to grow or become prosperous again without government intervention. Accordingly, the only way to ensure that the postwar market economy functioned, and that the economic base was secure, was to allow the government to intervene periodically and redress its shortfalls. Indeed, even those decisionmakers who were sceptical of this theory and other calls for periodical government intervention recognized that, during the changeover from a wartime to peacetime economy, the Canadian government would need to guide and assist in the reconstruction of a functional market economy and stable economic base.

Leading up to the end of the war, three types of policies were crafted to reconstruct a stable peacetime economic base and a liberal-democratic capitalist regime in Canada. The first and most important of these, reconversion, sought to withdraw the government gradually from the economy, compel private enterprise to resume the production of consumer goods, and set the Canadian economic base on an even and prosperous path. Specifically, decisionmakers hoped that rapid, yet orderly, reconversion would return Canada to a market economy, while also providing enough employment and aggregate demand to stabilize the economic base and quell Canadians' interest in ill-liberal and non-capitalist forms of political order. Stabilization measures formed the second type of reconstruction policy. These policies would serve to control severe inflation until reconversion and the transition to a peacetime economy were complete. Lastly, reformist reconstruction policies aimed to correct the structural flaws of the market economy identified by Keynesian economic theory. Forwarded by a influential set of civil servants, reformist reconstruction policies were designed to provide the Canadian government with a set of tools thought necessary to guarantee the stability and prosperity of the Canada's economic base and market economy over the long-term.

This chapter examines the relationship between the security of the Canadian economic base, Canada's organizing ideologies, and postwar reconstruction policies. The chapter begins by identifying liberal-democracy and capitalism as two organizing ideologies of the Canadian state. Next, the chapter explores how and why decisionmakers securitized Canadian liberal-democratic capitalism during the Second World War. Thirdly, the chapter explores how and why the stability and prosperity of the Canadian economic base was securitized between 1943-1945. Finally, the three types of

reconstruction policies decisionmakers crafted to address these threats to Canada's organizing ideology and economic base are outlined in detail.

2.1) Capitalism, Liberal-Democracy, and the Canadian State

Canada's organizing ideologies were never ones of pure laissez-faire capitalism or unbridled liberal-democracy. From Confederation to the Second World War, successive Canadian governments and decisionmakers embraced what Reginald Whitaker calls 'Tory capitalism'.¹ Advocates of Tory capitalism held that the Canadian state should use public money, trade and investment policies, and infrastructure projects to develop and sustain indigenous industries and encourage the private accumulation of capital. In practice this involved, among other activities, erecting tariffs to protect Canadian manufacturing from foreign competition, providing industrial subsidies and grants, underwriting high-risk business ventures, and nationalizing railroads. Above all, the objective of Tory capitalism was to use the powers and funds of the state to ease the burdens and hazards of private enterprise, and facilitate the exploitation of Canadian natural resources and the export of staple products, such as forestry goods, wheat, and minerals.²

Given the economic role played by the state, Canada could not be said to have operated a truly 'free' market, understood as the absence of government --except for regulatory and legal functions- in the commercial affairs of individuals and firms. Yet it would be equally incorrect to claim that Tory capitalism constituted a form of statism or

¹ Reg Whitaker, "Images of the state in Canada," in Leo Panitch, ed. *The Canadian State: Political Economy and Political Power* (Toronto: University of Toronto Press, 1977), 28-68.

² Leo Panitch, "The role and nature of the Canadian state," in Leo Panitch, ed. *The Canadian State: Political Economy and Political Power* (Toronto: University of Toronto Press, 1977), 15.

socialism. Statism involves government control or administration of a state's economic affairs. Socialism is government control or ownership of the means of production, distribution, and exchange, serving to equalize the economic condition and status of citizens. Neither of these accurately captures the relationship between the Canadian state and private enterprise under Tory capitalism, since it did not involve government control of Canada's economic affairs beyond the imposition of trade barriers and the administration of Crown land and transport infrastructures. Nor did the Canadian government control the means of production or foster individual economic equality. Instead, the state aided private investment and wealth accumulation, industrial expansion, and indigenous manufacturing with the aim of increasing Canadian economic output and potential. The state played a role in Canada's economic affairs, but it was always "decidedly ancillary"³ to private enterprise and the market. Despite the state's involvement in the economy, "The basic engine of development in Canada was to be private enterprise,"⁴ and "the economy as a whole remain[ed] fundamentally a private-enterprise system."⁵ Capitalism was an organizing ideology of the Canadian state, though its was Tory rather than laissez-faire in variation, and Canada's market was not completely 'free' owing to import tariffs and the assistance afforded private enterprise by government.

Similar qualifications must be made about the other organizing ideology of the Canadian state, liberal-democracy. At its core, liberalism asserts the right of individuals to pursue felicity freely.⁶ To prevent one individual's pursuit of felicity from impinging

³ Whitaker, "Images of the State," 35.

⁴ *ibid.*, 43.

⁵ C.B. Macpherson quoted in Panitch, "The role and nature of the State," 15.

⁶ Thomas Hobbes, *Leviathan* (Oxford: Oxford University Press, 1996), chapter 6.

on the felicity of another, however, liberalism further accepts that the state must establish legal parameters constraining an unlimited pursuit of felicity.⁷ Liberalism also demands that, when enforcing laws or establishing civil peace and order, states must respect certain individual rights considered essential to the pursuit of felicity and exercise of individual freedom.⁸ The democratic component of liberal-democracy, moreover, holds that the people or their elected representatives must approve of new laws, statutes, or other acts of government that curtail or expand individual freedoms, including freedoms of association, commerce, expression, and assembly. In most liberal-democracies, the assent of the people is demonstrated by a majority vote of elected legislators. Enforcement of the law is then delegated to the executive branch of the government and interpretation of the law to the judicial branch. Though the powers and relations between the legislative, executive, and judicial branches vary across liberal-democratic states, it is generally understood that, if either of these three branches is given absolute power to interpret, set, and enforce the law, liberty and the democratic process are endangered or have been annulled.⁹ Nevertheless, it is not uncommon for liberal-democratic constitutions to include provisions for the transfer of such absolute power to the executive branch in times of war or emergency.

Canada's constitution, the British North America (BNA) Act of 1867, upheld these basic liberal-democratic principles, though it was comparatively less liberal and less democratic than the Constitution of the United States of America. Unlike the U.S. Constitution, the BNA Act was not amended to include a bill of individual rights until

⁷ *ibid.*

⁸ See John Locke, *Second Treatise of Government* (Indianapolis: Hackett, 1980).

⁹ See Montesquieu, *The Spirit of Laws*, trans. Anne M. Cohler, Basia C. Miller and Harold S. Stone (Cambridge: Cambridge University Press, 1989).

1981. In keeping with British tradition, the rights of Canadian citizens were established and protected by the precedents of common law. In addition, the BNA Act suggested that, when in doubt, liberty and individuals' pursuit of felicity was secondary to the maintenance of "peace, order, and good government." The U.S. Constitution, on the other hand, gave precedence to the individual's right to "life, liberty, and the pursuit of happiness." Moreover, the BNA Act afforded the executive branch more discretionary powers, and the legislative branch fewer powers of oversight, than the U.S. Constitution. Finally, the BNA Act's "peace, order, and good government" provision permitted the Canadian government to do away with citizens' liberal-democratic rights in times of emergency. In 1914 Canada passed the War Measures Act, a statute which, in times of "war, invasion, or insurrection, real or apprehended," allowed the executive branch to authorize "such acts and things, and make from time to time such orders and regulations, as he may by reason of the existence of real or apprehended war, invasion or insurrection deem necessary or advisable for the security, defence, peace, order and welfare of Canada," including powers of censorship, detention, deportation, property appropriation, and transportation, trade, production, and manufacturing control.¹⁰

Although Canadian liberal-democracy was relatively more illiberal and authoritarian than its American counterpart, liberal-democracy was an organizing ideology of the Canadian state and Canada was a liberal-democratic regime in times of peace. Like Canada's other organizing ideology, capitalism, Canadian liberal-democracy was imperfect but by no means unworthy of the label.

¹⁰ Canada, Statues (1914), chapter 2, *War Measures Act*

2.2) Securitizing Liberal-Democratic Capitalism

Few threats to Canadian liberal-democratic capitalism manifest themselves during the first five decades of Confederation. Canada's politico-economic system provided most men with a fair standard of living and an acceptable degree of liberties.¹¹ This climate of content, however, was shaken by the First World War. Soldiers faced economic hardships and difficulty readjusting to civilian life when they returned to Canada. Many felt neglected by their government and evidence of wartime profiteering soured their views of industry and the profit motive.¹² Wartime fiscal policies also fuelled discontent among the working class. When the war ended, workers sensed that wages had failed to keep pace with the rapidly increasing cost of living. Labour discontent came to a boil in the spring of 1919, when nearly 25,000 workers in Winnipeg initiated a general strike on 15 May.¹³ Fearing the strike was a communist insurrection, the federal government deployed the Royal North-West Mounted Police to end the uprising. Following the arrest of the strike leaders and a confrontation between police and strikers that ended in two deaths, workers reluctantly agreed to end the strike on 24 June. To deter other workers from engaging in similar protests, the federal government imprisoned seven of the strike leaders and amended the criminal code to bar associations aiming to "bring about any governmental, industrial or economic change in Canada by use of forces, violence of physical injury to person or property, or by threats of such injury, or which teaches, advocates, advises or defends the use of force...to accomplish such

¹¹ Canada continued to discriminate along racial and gender lines. Canadian society was also divided among classes. Yet, insofar as liberal-democratic principles were followed to eventually resolve these inequalities, it can still be argued that Canada was a liberal-democratic state, though not a flawless one.

¹² James Struthers, "Prelude to Depression: The Federal Government and Unemployment, 1918-1929," *Canadian Historical Review* 58 (1977): 283.

¹³ Kenneth McNaught and David J. Bercuson, *The Winnipeg General Strike: 1919* (Don Mills: Longman, 1974), 56-57.

change.”¹⁴ Canadian capitalism, the federal government was declaring, would be defended against its enemies and overzealous critics.

As the economy began to improve in the 1920s, doubts about the legitimacy and stability of the market economy subsided and the federal government opted to monitor rather than prosecute radicals who called for an overthrow of the capitalist system.¹⁵ This period of relative tranquility came to an abrupt end in 1929. On 29 October 1929 a crash on the New York Stock Exchange crippled markets across the industrialized world. Caused by a myriad of factors, most notably the fragility of the global economic system that emerged after the First World War,¹⁶ the New York crash was followed by the decade-long economic crisis known as the Great Depression. Canada was immediately affected, though the true depth of the crisis was not understood until 1930. On the same day as the New York crash, over eight-hundred thousand stocks were dumped on the Montreal and Toronto stock exchanges, evaporating the personal savings of many Canadians.¹⁷ Canadians’ plight grew worse as industry reacted to the downturn. With a resource-based economy dependent on exports, Canada was vulnerable to trade fluctuations. When the depression forced Canada’s trading partners to cut back on imports,¹⁸ Canadian mines, pulp and paper mills, and wheat farms suffered. Between 1929-1933, the worst year of the depression in Canada, export prices fell by more than

¹⁴ Quoted in J.B. Mackenzie, “Section 98, Criminal Code and Freedom of Expression in Canada,” *Queen’s Law Journal* 11 (1972): 469.

¹⁵ Carl Betke and S.W. Horrall, *Canada’s Security Service: An Historical Outline, 1864-1966* (Ottawa: RCMP Historical Section, 1978), 453.

¹⁶ John Herd Thompson and Allen Seager, *Canada 1922-1939: Decades of Discord* (Toronto: McClelland and Stewart, 1986), 195.

¹⁷ *ibid.*, 193-194.

¹⁸ *ibid.*, 195.

thirty percent.¹⁹ In turn, these losses hampered Canadian manufacturing. Numerous factories closed, and output and prices fell by thirty and eighteen percent, respectively, between 1929-1933.²⁰

For professionals with a steady if diminished salary, such as lawyers and teachers, the crisis was difficult but manageable. For farmers and labourers, the situation was unbearable. On the prairies the depression coincided with a prolonged drought that left farming communities impoverished and at the mercy of creditors. Urban workers faced equally daunting challenges. In 1929 the unemployment rate stood at five percent, leaving approximately 116,000 non-agrarian labourers out of work. By 1933 the rate rose to twenty-seven percent, relegating 826,000 to the ranks of the non-agrarian unemployed.²¹ Those fortunate enough to stay on the job saw their wages and standard of living fall dramatically. Economic conditions did not improve until 1935. Even then the recovery was slight, and a recession in 1937 dampened what few gains were made.²² Confronted with this “crisis of capitalism,”²³ Canadians looked to their leaders for solutions; decisionmakers were unable to provide them. Wedded to traditional economic theories, federal politicians implemented policies that were ill-equipped to break the depression or alleviate the misery of the unemployed and needy.

Massive tariff increases were the first set of policies enacted. These failed to improve the lot of farmers or revive floundering industries. Some public works projects were started, but they were poorly funded. According to the reigning fiscal philosophy of

¹⁹ Robert Bothwell, Ian Drummond and John English, *Canada, 1900-1945* (Toronto: University of Toronto Press, 1987), 248-249.

²⁰ *ibid.*, 248-249.

²¹ *ibid.*, 248.

²² Kenneth Norrie and Douglas Owsram, *A History of the Canadian Economy* (Toronto: Harcourt Brace, 1991), 475.

²³ Thompson and Seager, *Canada 1922-1939*, 193.

the day, Gladstonianism, sound government finance was achieved by balancing budgets; deficits and debt brought only more economic hardship.²⁴ Hence, when the costs of public works dragged the federal budget into larger deficits and heavier debt, funding for projects was cut.²⁵ Relief was offered to the employed, yet a lingering commitment to the ideal of self-sufficiency and a robust work ethic ensured that recipients were ashamed of being on the 'dole'. The amount of relief was also kept low to "guarantee a standard of living lower than that available through the worst job available, lest people be tempted out of the productive workforce."²⁶ If a man had no dependents, moreover, he was denied relief.²⁷

As the number of unemployed exploded in 1932, Ottawa experimented with another measure, labour camps. Meant to keep restless single young men away from cities and radical agitators while costing less than other public works, nearly two-hundred camps were built between 1932-1934. As planned, the camps cost little to operate,²⁸ but the aim of keeping young men occupied and away from radical ideas backfired. Dozens of demonstrations erupted in the camps and radicals successfully infiltrated many camps. The dissemination of radical ideas turned the camps into "hotbeds of protest."²⁹ In April 1935, for instance, 1800 men from a camp in British Columbia overwhelmed their guards and descended on Vancouver. Greeted by a sympathetic public, the labourers demanded fair wages, control of their camp, and a reestablishment of their right to vote, which was

²⁴ H. Scott Gordon, "A Twenty Year Perspective: Reflections on the Keynesian Revolution in Canada," in *Canadian Economic Policy Since the War* (Ottawa: Carleton University and Canadian Trade Committee, 1966), 26.

²⁵ Norrie and Owsam, *History of the Canadian Economy*, 499.

²⁶ *ibid.*, 492.

²⁷ Bothwell, Drummond and English, *Canada, 1900-1945*, 256.

²⁸ Laurel Sefton MacDowell, "Relief Camp Workers in Ontario during the Great Depression of the 1930s," *Canadian Historical Review* 76 (1995): 209.

²⁹ Bothwell, Drummond and English, *Canada, 1900-1945*, 256.

denied all who volunteered for the camps.³⁰ To attract greater attention to their cause, the labourers organized a march towards Ottawa. In June twelve hundred men boarded freight trains headed for the national capital. Known as the 'On-to-Ottawa' trek, the men's voyage attracted much fanfare and public support.³¹ Stopped by the Royal Canadian Mounted Police in Regina, the On-to-Ottawa trek offered a striking example of the government's inability to solve the economic crisis gripping the country, and the public's support of the 'trekkers' hinted at an underlying dismay with the political-economic status-quo.

When tariffs proved ineffective, public works too expensive, and the relief camps a source of radicalism and unrest, Canada's increasingly vilified prime minister, R.B. Bennett, informed the public that his government was prepared to undertake a significant reform of the capitalist system. During a series of radio addresses, Bennett told Canadians that "capitalism must be reformed to meet the changed conditions of this new world."³² What he proposed was affordable credit for farmers, a minimum wage, limited working hours, unemployment insurance, income redistribution, progressive tax rates, and a reform of industrial labour practices. Whether Bennett was genuinely committed to reform or merely trying to win back popular support is unclear. Only an unemployment program, a six-day work week, and eight-hour work day were passed by Parliament before his Conservative government was defeated in the election of 1935. Critical components of these few reforms were then struck down as unconstitutional by the Judicial Committee of the Privy Council of the United Kingdom.

³⁰ *ibid.*, 269-270.

³¹ *ibid.*, 270-272.

³² Donald Foster and Colin Reid, "The Politics of Opportunism: The New Deal Broadcasts," *Canadian Historical Review* 60 (1979): 325.

William Lyon Mackenzie King, head of the Liberal party that defeated the Conservatives in 1935, had no intention of implementing Bennett's reform program when he became prime minister. A prudent politician who avoided controversy, Mackenzie King only reluctantly waged a jurisdictional battle with the provinces to make one reform, unemployment insurance, constitutionally viable.³³ King was surrounded by Gladstonian ministers who opposed any policies that would plunge Canada deeper into debt and deficit.³⁴ As a result, the Liberals' effort to reignite the Canadian economy and free Canada from the depression focused on a policy that required no increase in government spending or renegotiation of the BNA Act: increased trade with the United States and United Kingdom.³⁵ A system of imperial trade preferences negotiated by Bennett in 1932 had a positive impact on the Canadian economy. King hoped that a new set of trade accords would be equally fruitful. Trade agreements between Canada and the United States and the United Kingdom were signed November 1938 by the King government, but their impact was minimal.³⁶ The depression continued to suffocate the Canadian economy.

Canadians were deeply affected by the Great Depression. No economic quagmire before or since equalled the psychological despair it wrought. Many people believed that government, private enterprise, and the capitalist system as a whole had failed them. Both intellectuals and members of the larger public questioned the value and legitimacy of the

³³ Thompson and Seager, *Canada 1922-1939*, 296-297.

³⁴ Doug Owsam, *The Government Generation: Canadian Intellectuals and the State, 1900-1945* (Toronto: University of Toronto Press, 1986), 181-82.

³⁵ *ibid.*

³⁶ Norrie and Owsam, *History of the Canadian Economy*, 504; Norman Hillmer and J.L. Granatstein, *Empire to Umpire: Canada and the World into the Twenty-First Century* (Toronto: Thomson-Nelson, 2007), 126-127.

market economy and liberal individualism.³⁷ A socialist political party, the Cooperative Commonwealth Federation (CCF) was created. Social Credit, a party which advocated large-scale wealth distribution to spur economic growth, won the 1935 provincial election in Alberta. The ranks of the Canadian Communist Party grew. The fascist National Unity Party attracted a number of followers in Quebec. It was an era, noted H. Blair Neatby, “when Canadians seriously, and almost for the first time, began to analyse the structure of their society and the role of social institutions. They questioned the accepted values in political and economic life, and debated radical ideas which only a few years before would have been ridiculed as utopian or heretical.”³⁸

Yet it was not new political parties or novel ideas that finally freed Canada from the depression. War, and the demands of war production more specifically, accomplished that feat. On 1 September 1939 Germany invaded Poland, prompting Great Britain and France to declare war on the Nazi state. Eight days later, on 10 September 1939, Canada declared war on Germany as well. With Canada at war, the War Measures Act came into effect, giving the federal executive authoritarian powers to oversee industrial production and accumulate additional revenue. Initially, however, the Gladstonian-minded Liberal government hoped to limit the costs of war and the degree of direct government intervention in the economy.³⁹ Nevertheless, even when economies were sought, defence expenditures climbed from \$34.8 million in 1938-39 to \$125 million in 1939-40, and to \$730 million in 1940-41. Total government expenditures went from \$680 million in

³⁷ Robert M. Campbell, *Grand Illusions: The Politics of the Keynesian Experience in Canada, 1945-1975* (Peterborough: Broadview, 1987), 7; Owram, *Generation*, 170-71.

³⁸ H. Blair Neatby, *The Politics of Chaos: Canada in the Thirties* (Kemptville: Golden Dog Press, 2003), 24.

³⁹ Norrie and Owram, *History of the Canadian Economy*, 511; David W. Slater, *War, Finance and Reconstruction: The Role of Canada's Department of Finance, 1939-1946* (Ottawa: Department of Finance, 1995), 18.

1939-40 to \$1.25 billion in 1940-41.⁴⁰ Corporate tax revenues increased from \$77.9 million to \$131.6 million between 1939-1941. Revenue from income taxes rose from \$45.4 million to \$103.5 million during the same period, and a wartime tax on excess profits introduced in 1940 added an extra \$24 million to the government's coffers.⁴¹ Thanks to funds garnered from indirect taxes, these levies boosted total tax revenue from \$468 million in 1939 to \$778 million in 1940-41. Additional funds were garnered from loans and credit totalling \$118.7 million in 1939-40 and \$377.5 million in 1940-41.⁴² The first year of war also saw capital investment in the manufacturing sector augment by nearly two hundred percent, from \$98.4 million in 1939-40 to \$247.1 in 1940-41.⁴³ Average wages, meanwhile, finally equalled their pre-depression rates in 1939, and then surpassed them in 1940. Hiring by the public and private sectors, and enlistment in the armed forces especially, reduced the ranks of the unemployed by 106,000 between 1939-40.⁴⁴ Finally, farmers also saw their livelihoods return to pre-depression levels.⁴⁵ Regardless of Ottawa's intention to keep costs down, the expanded role of the state in the country's economic affairs brought on by the war was improving Canadians' lives and freeing them from the troubles of the depression.

In May 1940 Germany invaded France. After less than a month, French forces surrendered and British Commonwealth units retreated across the English channel. With France under Nazi control and the United States' entry into the war still eighteen months

⁴⁰ M.C. Urquhart and K.A.H. Buckley, ed. *Historical Statistics of Canada* (Cambridge: Cambridge University Press, 1965), 200-202.

⁴¹ *ibid.*, 197.

⁴² Slater, *War, Finance and Reconstruction*, 56.

⁴³ Urquhart and Buckley, *Historical Statistics*, 487.

⁴⁴ *ibid.*, 61.

⁴⁵ *ibid.*, 356.

away, Canada became Great Britain's most important ally.⁴⁶ Decisionmakers in Ottawa immediately understood that Canada's tempered approach to the war and war production were over; the Canadian economy had to be transformed to meet the demands of total war.⁴⁷ What was more, decisionmakers saw that only the federal government could properly manage a total war economy.⁴⁸ Using the powers of the War Measures Act, war industries and essential supply chains would be subjected to centralized government control, the Dominion would create corporations to fill production gaps the private sector was unable to address, and Ottawa would assume provincial taxing powers. Liberalism and the market economy were set aside for the remainder of the war, and illiberal government and economic planning reigned supreme.⁴⁹

Two months prior to the fall of France, Ottawa established the Department of Munitions and Supply (DMS).⁵⁰ Headed by C.D. Howe, a successful engineer and businessman recruited into politics by King, the new department was given extraordinary powers to direct Canadian war production. Between April 1940 and December 1945, DMS spent \$9.5 billion on war-related production.⁵¹ Of this, the department expended \$1.5 billion on plant expansions and defence construction.⁵² DMS also created twenty-eight Crown corporations and built more than one hundred factories during the war.⁵³ Due in no small part to the coordination of Howe's DMS, the output of raw materials,

⁴⁶ C.P. Stacey, *Canada and the Age of Conflict*, vol.2 (Toronto: University of Toronto Press, 1981), 317.

⁴⁷ Norrie and Owrarn, *History of the Canadian Economy*, 514-517.

⁴⁸ Peter S. McInnis, *Harnessing Labour Confrontation: Shaping the Postwar Settlement in Canada, 1943-1950* (Toronto: University of Toronto Press, 2002), 22.

⁴⁹ *ibid.*, 22.

⁵⁰ For a complete overview of the Department of Munitions and Supply and its activities see John de Navarre Kennedy, *History of the Department of Munitions and Supply: Canada and the Second World War*, vol.2 (Ottawa: King's Printer, 1950).

⁵¹ C.P. Stacey, *Arms, Men and Government: The War Policies of Canada, 1939-1945* (Ottawa: Queen's Printer, 1970), 506; Norrie and Owrarn, *History of the Canadian Economy*, 523.

⁵² Stacey, *Arms, Men and Government*, 506.

⁵³ Norrie and Owrarn, *History of the Canadian Economy*, 523.

finished products, munitions and weaponry, and capital equipment was astonishing for a country of Canada's size.⁵⁴ Assisting Howe in managing the total war economy was the War Industries Control Board (WICB). A subset of Howe's department, the WICB ensured that DMS and war plants had steady access to scarce supplies. As part of the supply management functions, the WICB "curtailed all forms of domestic consumption deemed non-essential for the war effort."⁵⁵ Nineteen 'controllers' formed the WICB, each representing a vital wartime industrial sector, including steel, oil, metals, power, timber, and machine tools. The controllers themselves were established executives from the private sector who agreed to lend their services to DMS for the duration of the war.

Accompanying DMS' centralization of war production was an expansion of federal taxation, borrowing, and a control of prices and wages. In February 1940 a Royal Commission on Dominion-Provincial Relations recommended that the federal government "obtain exclusive use of personal and corporate income tax, in return for money transfers to the provinces."⁵⁶ Though some provincial governments resisted at first, temporary Wartime Taxation Suspension Agreements were negotiated when the federal government made clear that it would assume full taxation powers whether the provinces acceded or not.⁵⁷ With these new tax jurisdictions in hand, federal revenue⁵⁸ rose from \$1.4 billion in 1941-42 to \$2.25 billion in 1942-43, and to \$2.7 billion in 1943-44.⁵⁹ In 1942 alone,⁶⁰ the federal government collected \$348 million in corporate taxes,

⁵⁴ For summary of Canada's industrial war effort see Michael Hennessey, "The Industrial Front: The Scale and Scope of Canadian Industrial Mobilization During the Second World War," in Bernd Horn, ed. *Forging a Nation: Perspectives on the Canadian Military Experience* (St. Catharines: Vanwell, 2002).

⁵⁵ McInnis, *Confrontation*, 34.

⁵⁶ Slater, *War, Finance and Reconstruction*, 36.

⁵⁷ *ibid.*, 47-49.

⁵⁸ These figures represent revenue after transfer payments to the provinces were made.

⁵⁹ *ibid.*, 56.

⁶⁰ These figures do not take provincial transfers into account.

\$484 million in income taxes, \$434 million in excess profit taxes, and \$758 million in indirect taxes.⁶¹ With government expenditures climbing from \$1.8 billion in 1941-42 to \$5.3 billion in 1943-44, an increase in government borrowing was also required to fund the war effort. Accordingly, the federal deficit grew from \$397 million in 1941-42 to \$2.5 billion in 1943-44. By war's end, Canada's national debt stood at \$18 billion, a remarkable expansion over the pre-war debt of \$5 billion. Lastly, in order to contain Canadians' cost of living and circumvent inflationary pressures, Ottawa initiated a large-scale stabilization program. As discussed in detail later, the most visible component of the government's stabilization program consisted of a set of price, wage, and distribution controls that regulated supply and demand relationships, and imposed strict limits on the commercial behaviour of consumers and firms.

Canada's commitment to a total war effort and planned economy had a dramatic impact on Canadians' sense of well-being. In spite of the government's stabilization measures, wages continued creeping upwards between 1940-41. Though higher taxes and compulsory saving programs kept most of this new money out of labourers' pockets, workers sensed that an opportunity to improve their lives was at hand for the first time in a decade.⁶² Indeed, while many labourers were becoming increasingly frustrated with the artificial ceilings imposed on their wages and the number of strikes steadily increased between 1940-43, the government's efforts to cap the cost of living counteracted claims that the planned economy was undermining workers' standard of living.⁶³ However resentful labourers were that their wages were not scaling higher, it was generally

⁶¹ Urquhart and Buckley, *Historical Statistics*, 197.

⁶² Jeffery A. Keshen, *Saints, Sinners, and Soldiers* (Toronto: University of British Columbia Press, 2004), 55.

⁶³ *ibid.*, 55-56.

understood that economic planning was benefiting the working class. Farmers and small business owners were also appreciating how wartime expenditures and economic planning were easing their lives. Total war mobilization brought better agricultural sales and economic planning guaranteed markets for farmers' goods.⁶⁴ Small business owners disliked controls of their prices, but these same price controls prevented increases in the costs of their supplies, distribution controls ensured they received a fair and reasonably priced share of wholesale goods, and the wage ceiling kept labour costs down.⁶⁵

Most striking was the impact of war mobilization, government expenditure, and economic planning on the enduring symbol of the Great Depression, unemployment. War production and enlistment in the armed forces between 1940-44 all but eradicated unemployment. From 423,000 in 1940, the number of unemployed Canadians fell to 63,000 in 1944. Expressed in percentages, this meant that non-agrarian unemployment fell from thirteen percent in 1940 to less than two percent in 1944.⁶⁶ To assist those few workers who lost their jobs, moreover, an unemployment insurance program was created in 1940. Under the program, unemployed labourers were allotted half their wages from the job they had held until they found new work. In order to place the unemployed in new jobs, the insurance scheme also established employment offices that were coordinated with the selective service system directing wartime labour allocations.⁶⁷ Unemployment insurance represented a significant advance in Canadian social welfare policy, one which, as Dennis Guest has observed, was moved forward by the logic of a planned economy

⁶⁴ Norrie and O'ram, *History of the Canadian Economy*, 526.

⁶⁵ Joseph Schull, *The Great Scot: A Biography of Donald Gordon* (Montreal: McGill-Queen's University Press, 1979), 99.

⁶⁶ Urquhart and Buckley, *Historical Statistics*, 61.

⁶⁷ Dennis Guest, *The Emergence of Social Security in Canada* (Vancouver: University of British Columbia Press, 1980), 106-108.

and total war production.⁶⁸ All told, war production and economic planning imbued Canadians with a sense of personal economic security unparalleled since the late 1920s.

Canadians, therefore, reacted with a mixture of hope and fear when expectations of an eventual Allied victory materialized in 1942-43. On the one hand, victory would remove the existential threats the Axis posed to the Allies. Victory would also bring home loved ones serving in the armed forces. On the other hand, victory implied an end to war production, a likely end to economic planning, and most terrifying of all, a possible return to the unemployment, destitution, and personal insecurity of the depression. Put bluntly, Canadians worried that the end of war meant abandoning all they had gained in favour of the 'bad old days' of capitalism and uncertainty. As a January 1943 opinion survey revealed, Canadians looked towards the postwar world with a feeling "akin to dread."⁶⁹ Nor were these sentiments found only among the 'uninformed' public. A majority of economists, government officials, politicians, and business people believed that, unless remedial measures were adopted, unemployment would rise to prewar levels after hostilities ceased and the armed forces were demobilized.⁷⁰ These pessimistic assessments of the postwar world showed that the war had not dispelled perceptions of a 'crisis of capitalism'--it had merely shrouded them for a time.

In hopes of averting a return to capitalism, unemployment, and depression, more and more Canadians began to support socialist political parties and policies. The war, after all, seemed to prove that socialist and statist theories had been right all along: a planned economy could succeed, and government intervention in the economy had been

⁶⁸ *ibid.*, 106-108.

⁶⁹ J.L. Granatstein, *Canada's War: The Politics of the Mackenzie King Government, 1939-1945* (Toronto: University of Toronto Press, 1975), 251.

⁷⁰ *ibid.*, 276; W.A. Mackintosh, "The White Paper on Employment and Income in its 1945 Setting," in *Canadian Economic Policy Since the War* (Montreal: Canadian Trade Committee, 1965), 15.

the cure for chronic unemployment and the antidote against the ravages of the depression.⁷¹ Rather than risking what they had gained by following parties which had only suspended the state's organizing ideologies to prosecute the war effectively, large numbers of the public thought it in their interests to endorse political parties who were committed to economic planning in peacetime. And though a continuation of economic planning might require a perpetuation of some extra-ordinary executive branch powers and a permanent encroachment on certain individual rights and freedoms,⁷² this was an acceptable price to pay for the institutionalization of personal economic security and an avoidance of future depressions.⁷³ The public's mood at this juncture is well captured by Whitaker: "People now had something to *lose*. The left could now be seen as curiously conservative, ready and able to protect the gains of war in peacetime: the right was a force which might lose it all in a return to the prewar 'normalcy' of depression and despair."⁷⁴

The socialist CCF promised Canadians a platform to preserve living standards and prevent a return of the depression. In their 1943 book, *Make This Your Canada*, the CCF's national secretary, David Lewis, and the party's national chairman, Frank Scott, outlined their vision of a socialist Canada.⁷⁵ Lewis and Scott began by arguing that the "lack of any planning" had caused the Great Depression. To avoid another depression after the war, Lewis and Scott proposed the creation of a National Planning Commission. "The task of the commission," they argued, "will be to plan for the production,

⁷¹ Owram, *Generation*, 296.

⁷² Reg Whitaker, *The Government Party: Organizing and Financing the Liberal Party of Canada, 1930-1958* (Toronto: University of Toronto Press, 1977), 140; Granatstein, *Canada's War*, 176; Owram, *Generation*, 291-97.

⁷³ Whitaker, *Government Party*, 140.

⁷⁴ *ibid.*

⁷⁵ David Lewis and Frank Scott, *Make This Your Canada: A Review of C.C.F. History and Policy* (Toronto: 1943), chapter 10.

distribution and exchange of all goods and services necessary to the efficient functioning of the economy; to coordinate the activities of socialized industries; to provide for a satisfactory balance between the producing and consuming power.”⁷⁶ “The war experience,” they further stipulated, proved the necessity of a centrally planned economy. According to Lewis and Scott, a return to a capitalist or partially-planned economy would throw Canada back into depression shortly after the war.⁷⁷

In addition to the Planning Commission, Lewis and Scott advocated the social ownership and control “of the industrial and commercial undertakings necessary to a full use of resources.”⁷⁸ In practice, social ownership meant that a CCF government would retain government control of Crown corporations at war’s end and nationalize all private banks, public utilities, and transportation infrastructures and facilities. The management of nationalized industries, furthermore, would be ceded to boards comprised of representatives from government, management, and unionized workers. Next, those companies allowed to remain in private hands would be scrutinized to ensure that they only recorded “reasonable rates of profit.”⁷⁹ Companies would be permitted to stay in private hands if a business in question “1) is in no position to exploit the public, 2) shows no signs of becoming a socially dangerous vested interest, 3) is being operated under reasonable efficiency under decent working conditions and 4) is ready loyally to play its part in the fulfillment of the national plan.”⁸⁰ Lastly, the CCF secretary and chairman told Canadians that a socialist government would render “Necessities of life such as bread, milk, coal, and gasoline [free] from monopoly control and...available at the

⁷⁶ *ibid.*, 150.

⁷⁷ *ibid.*, 154-155.

⁷⁸ *ibid.*, 156.

⁷⁹ *ibid.*, 163.

⁸⁰ *ibid.*, 163.

cheapest possible price.”⁸¹ This suggested that the CCF intended to keep extensive price controls in place in peacetime. At its 29 November -1 December 1944 national convention, the CCF membership endorsed Lewis and Scott’s proposals in their party’s election manifesto.⁸²

Canadians took notice of the socialist alternative offered by the CCF and other radical parties. On 4 August 1943, voters in Ontario elected a minority Conservative government; the Conservatives won 38 seats, while the Liberals kept only fifteen. What stunned observers in Ottawa, though, was that 400,000 Ontarians voted for the CCF, giving the socialist party 34 seats. Five days later, voters in Montreal elected Canada’s first Communist member of parliament in a federal by-election. While defenders of Canada’s organizing ideologies could find solace in the fact that socialists were not elected to govern the Dominion’s largest province and the by-election could be viewed as an isolated incident, a September 1943 poll indicated that 29 percent of Canadians were prepared to elect a CCF government in the next federal election, leaving the Liberals and Conservatives each with 28 percent of electorate’s support.⁸³ Another 1943 poll suggested that the public favoured “the nationalization of private enterprise.”⁸⁴ Sixty-five percent of Canadians, furthermore, preferred the prospect of a government controlled by labour unions as opposed to thirty-five percent who believed they would be better served if the state were managed by “big business.”⁸⁵

⁸¹ *ibid.*, 160.

⁸² Michael S. Cross, ed. *The Decline and Fall of a Good Idea: CCF-NDP Manifestos, 1932 to 1969* (Toronto: New Hogtown P., 1974), 24-29.

⁸³ *Public Opinion Quarterly* (Winter 1943), 747.

⁸⁴ Whitaker, *Government Party*, 142.

⁸⁵ *Public Opinion Quarterly* (Spring 1944), 144.

Other polls highlighted a similar degree of discontent among Canadians. An October 1943 opinion survey asked whether Canadians “would like to see many changes or reforms made in Canada, or would you rather the country remain pretty much as it was before the war?” Seventy-one percent of Canadians opted for reform, compared with only thirty-two percent of Americans.⁸⁶ In a December 1943 poll, sixty-one percent of Canadians agreed that “all public utilities such as water, gas, and electricity should be owned by the government”⁸⁷ and a third of those polled believed that workers “would be better off if all the industries in Canada were owned and run by the government.”⁸⁸ Fickle though the Canadian public may have been,⁸⁹ these polls sent a threatening signal: “Canadians were poised to accept non-capitalist approaches to economic matters.”⁹⁰

Private enterprise voiced the loudest alarms about Canadians’ socialist sympathies. While a few businesses were becoming accustomed to the stability of a planned economy, most industrialists recognized that their long-term interests lay with a reestablishment of Canada’s organizing ideologies after hostilities ended. To this end, segments of the Canadian business community undertook “a ‘free enterprise’ campaign trumpeting the classical liberal values of freedom and individuality, unencumbered by excessive state intervention.”⁹¹ George Spinney, the president of the Bank of Montreal,

⁸⁶ *Public Opinion Quarterly* (Winter 1943), 748.

⁸⁷ *Public Opinion Quarterly* (Spring 1944), 144.

⁸⁸ *Ibid.*, 159.

⁸⁹ As historian John English has correctly observed, public support for socialist policies declined as the end of war approached and the Liberals embraced a reformist political platform. While this could be interpreted as an indication that Canadians were not seriously committed to socialism in 1943-44, an alternative reading is that the public was willing to give moderate reforms a chance to prove their worth before electing a socialist government. Had the postwar economy faltered, it is quite plausible that support for the CCF and socialist policies would have regained strength and surpassed 1943-44 levels. What is more, it is highly unlikely that the King government would not have recognized this possibility given the fluctuation in public opinion between 1943-45. See John English, “Canada’s Road to 1945,” *Journal of Canadian Studies* 16 (1981): 100-109.

⁹⁰ Campbell, *Grand Illusions*, 21.

⁹¹ McInnis, *Confrontation*, 53-57.

warned Canadians about the dangers of surrendering their liberal-democratic values for the sake of “economic progress through order-in-council.” The Canadian Manufacturers Association suggested that socialist forces were conspiring to sabotage a smooth functioning of the market economy following the war. Other business institutions, such as the Bank of Commerce, strove to convince Canadians that the private sector would be well-positioned to employ all who wanted work once war production ceased. C.L. Burton of the Robert Simpson Company, “perhaps the most influential retailer in the country,”⁹² regularly petitioned Ottawa to remove its economic controls, lest the public develop “a state of mind wherein they will accept in times of peace a continuance of the war emergent powers of Government.”⁹³ Though none doubted that the business community was acting to protect its own parochial interests, these warnings resonated with other defenders of Canada’s organizing ideologies.⁹⁴

Intellectuals also voiced concerns about Canadians’ attraction to a permanently planned economy. As Doug Owram has shown,⁹⁵ these intellectuals, most of whom were academics associated with the political left, expressed a distinct unease about the centralized powers of the executive branch and the wartime erosion of liberal-democratic norms. For these scholars, “the rise of government interventionism, the power of the bureaucracy...all raised disturbing questions.”⁹⁶ Above all, they worried about “the long-term implications of this relationship between an assertive bureaucracy, a government with wartime powers, and an apparently complacent public.” Harold Innis, for instance,

⁹² Quoted in Granatstein, *Canada’s War*, 182.

⁹³ Library and Archives Canada (LAC), RG19, series E-1(d), vol. 2733, “C.L. Burton to J.L. Ilsley,” 2 October and 13 November 1945.

⁹⁴ Whitaker, *Government Party*, 141.

⁹⁵ Owram, *Generation*, 263-274.

⁹⁶ *ibid.*, 263.

held that the ‘sovereignty of the economists’ would undermine popular government if economic planning was retained in peacetime. Other academics echoed the business community’s calls for a rapid reinstatement of the market economy. In September 1944 the Advisory Committee on Reconstruction, chaired by the principal of McGill University, F. Cyril James, released a report calling for policies to “provide with a minimum delay for the free functioning of markets.” In spite of its reputation for being an impassioned advocate of social reform, the James Committee cautioned that “the immediate postwar period must not be regarded as a time for comprehensive social and political revolution.”⁹⁷

As perturbed by the public’s openness to socialist alternatives were members of the Liberal Cabinet. On one level, the Liberals’ trepidations about Canadians’ socialist tilt were driven by partisan politics. The rise in popular support for the CCF meant that the Liberals could be driven from office during the next federal election. Prime minister King, in particular, was almost obsessive in his determination to lure voters back from the CCF and win a third consecutive mandate for the Liberal party.⁹⁸ To defeat the CCF, King and his advisers recognized that the Liberals had to present the public with reconstruction policies that promised to curb the excesses of the capitalism, prevent a return to depression-era unemployment levels, and protect Canadians’ improved standard of living. Accordingly, from the summer of 1943 to the federal election of June 1945, the Liberals mounted an orchestrated campaign to convince the Canadian people that they were the party of sensible reform and economic prosperity, and the harbingers of a ‘New

⁹⁷ Canada, Advisory Committee on Reconstruction, *Report* (Ottawa: King’s Printer 1944), 10-11.

⁹⁸ Granatstein, *Canada’s War*, chapter 7.

Social Order' that would see the market tempered by a watchful government willing to correct the failings of the business cycle.⁹⁹

Yet partisanship accounts for only part of the Liberal government's approach to reconstruction. The King Cabinet's reconstruction policies were equally shaped by an obligatory imperative to defend, secure, and reassert the preeminence of Canada's organizing ideologies. As the guardians of the Canadian state, and indeed as a party which was beginning to see itself as synonymous with Government in Canada,¹⁰⁰ the Liberals shouldered a custodial responsibility to ensure the 'order' and 'good government' of Canada, which, as argued thus far, were symbolically and substantially linked with liberal-democratic governance and a capitalist economy. That the interests of the Liberal party coincided with a securing of Canada's organizing ideologies must not be taken to mean that the protection of Canadian liberal-democratic capitalism was a purely partisan endeavour.

Indeed, the Liberals understood that the fate of Canada's organizing ideologies would not be decided by a single election. While the promise of a 'New Social Order' might keep the CCF from carrying the 1945 election, a reconstituted liberal-democratic capitalist regime would be 'on trial' after the war. The true security of Canada's organizing ideologies would be decided after the war and the 1945 election. If the market economy failed to provide "jobs and a fair income for all those able and willing to work,"¹⁰¹ support for the CCF or other socialist/statist alternative might surge higher than

⁹⁹ *ibid.*, 383-413.

¹⁰⁰ As Whitaker argues, after ruling the Canadian state for a decade, by 1945 the Liberal party "had become the government." Stated differently, the Liberals were, by the end of the war, the Government Party rather than merely the governing party. See Whitaker, *Government Party*, 167.

¹⁰¹ LAC, MG27III-B20, vol. 147, file 89-2, "Howe notes for Trade and Labour Congress speech," 26 October 1944.

in 1943. Reconstruction policies, then, could not merely serve as an election platform. Instead, reconstruction had to ensure that liberal-democratic capitalism prospered, and that the market economy would maintain wartime employment levels and sustain people's sense of personal economic security.¹⁰² Simply put, reconstruction policies would secure Canada's organizing ideologies by showing Canadians' that, in spite of its past fallings, liberal-democratic capitalism 'worked'.

Evidence that the Liberal government's reconstruction policies contained a securitizing component is found in the language members of the King Cabinet used when writing about the CCF, socialism, and capitalism. In his 1918 book, *Industry and Humanity*, a work he continually cited to himself and others throughout his life, a young Mackenzie King noted that "capitalism is too important to be entrusted to the capitalists alone." It was a belief King carried with him throughout the 1920s, during his 1935 ministry, and into the war and postwar period. Unless government acted to protect capitalism, the prime minister understood, statist or socialist alternatives would ascend on a wave of public discontent. King was also unambiguous about the danger posed by socialism and the logic of class conflict on which it rested. On 2 February 1943, King wrote in his diary that "It is clear, however, that the CCF is a political organization to further the ends of class and control of the government by class...*This is bad for a nation; should it be permitted to develop, would soon have serious consequences.*"¹⁰³ A year and a half later, on 15 July 1944, the prime minister further observed that, if the country fell "into the hands of inexperienced men who might lead its affairs in the direction of a socialistic state," the consequences "might prove more *disastrous* than can be foreseen as

¹⁰² LAC, RG28, series A, vol. 333, file 196-40-14-2, "Interest in Economic Controls in the Transition Period," 11 July 1945.

¹⁰³ LAC, MG26-J13, William Lyon Mackenzie King Diary, 2 February 1943. Emphasis added.

the moment.”¹⁰⁴ The linguistic act of this diary entry demonstrates King’s securitization of Canada’s organizing ideologies and perception of the possible election of a socialist government in Canada in 1945 or thereafter as a political-economic threat.

C.D. Howe, arguably the second most influential man in the Cabinet after the prime minister, securitized the protection of Canada’s organizing ideologies as well. In an August 1943 letter to Lord Beaverbrook, Howe confided that “Our best work will be needed to keep the Government out of the hands of the socialists.”¹⁰⁵ In part a reference to the need to ready the Liberal party for an election, Howe’s tone and word choice indicate that the danger he saw transcended partisan politics. When speaking to the Trade and Labour Congress in October 1944, Howe was unabashed about the necessity of securing Canada’s return to a liberal-democratic capitalist regime by preventing a turn towards socialism, statism, or authoritarian governance:

Individual liberty and security are inseparably associated with the vital principle of free enterprise, and the private ownership of property. These priceless blessings will remain with us, only so long as we maintain the source from which they flow. They will go with the wind, pass beyond our reach, and it will be difficult, if not impossible to regain them, if ever there is substituted for them any form of Communism, or governmental regimentation.¹⁰⁶

Further evidence of a non-partisan, securitizing component to the King government’s reconstruction policies is found in views, attitudes, and prescriptions of senior civil servants. Studies of Canada’s wartime department of finance bureaucrats have tended to focus on their faith in technocratic rationality, distrust of the private sector, critiques of the business cycle, and belief in the state’s responsibility to better the

¹⁰⁴ LAC, WLMK Diary, 15 July 1944. Emphasis added.

¹⁰⁵ Quoted in Robert Bothwell and William Kilbourn, *C.D. Howe: A Biography* (Toronto: McClelland and Stewart, 1979), 197.

¹⁰⁶ LAC, MG27III-B20, vol. 147, file 89-2, “Howe notes for Trade and Labour Congress speech,” 26 October 1944.

welfare of its citizens. The wartime finance bureaucrats, therefore, have typically been portrayed as an especially progressive group who sought to emancipate Canada from the injustices and pitfalls of a market economy.¹⁰⁷ While this characterization aptly describes the views of a few of the younger economists working for the finance department during the war, such as Alex Skelton, this depiction ignores the conservative moderation of those senior bureaucrats who held the greatest sway over the King Cabinet, including the deputy minister of finance, W.C. Clark, and the governor of the Bank of Canada, Graham Towers. Though Clark and Towers urged Cabinet to see reconstruction as an opportunity to remedy several key deficiencies that they identified in the capitalist system, each of them thought that the government should return Canada to a market economy after the war.¹⁰⁸ Unlike members of the Liberal party, furthermore, their advocacy for a resurgent market economy was largely devoid of partisan intrigue. Instead, Clark and Towers believed that a market economy was the keystone of Canadian prosperity and a foundational ideology of the Canadian state. Despite exaggerating civil servants' lack of circumspection and freedom of thought, Leo Panitch plausibly observes that, in the Canadian context, senior bureaucrats did not "*decide to favour capitalist interests.*" Rather, it rarely occurred "to them that they might do other than favour such interests."¹⁰⁹ As high-ranking attendants of the Canadian state, Clark and Towers accepted that their role was to uphold Canada's organizing principles, or give advice to their political masters to that same end.

¹⁰⁷ The best examples of these narratives are Owram, *Generation* and J.L. Granatstein, *The Ottawa Men: The Civil Service Mandarins, 1935-1957* (Toronto: Oxford University Press, 1982).

¹⁰⁸ LAC, RG19, vol. 3993, file W-2-5, "W.C. Clark to D. Gordon," 16 October 1944; McInnis, *Confrontation*, 56.

¹⁰⁹ Panitch, "Role and Nature of the Canadian state," 14.

Often overlooked in the literature on Canadian reconstruction policies, moreover, is the role of senior officials from DMS and the WICB. While the personalities and philosophies of those who formed the upper echelons of the department of finance have been the subject of various books and articles, only a select number of academic works discuss how the WICB controllers helped shape reconstruction policy in Canada.¹¹⁰ This is an unfortunate omission. The controllers played a critical part in setting industrial, investment, and decontrol policy during the transition from war to peace.¹¹¹ More significantly, in light of the controllers' importance in formulating these transition policies, their perspectives on the goals and purposes of reconstruction cannot be ignored. DMS records show that the controllers supported the reestablishment of a market economy.¹¹² Since they were all captains of industry, their desire to restore Canadian capitalism is unsurprising. Yet it does reinforce the fact that reconstruction policy was not merely guided by partisanship or the progressive ideals of economists from the finance department. Like the business people who organized the 'free enterprise' advertising campaign discussed above, the controllers believed in the market economy, were determined to remove wartime impediments to liberal commerce, and were worried about

¹¹⁰ McInnis *Confrontation*, Bothwell and Kilbourn, *Howe*, and Robert Bothwell, Ian Drummond and John English, *Canada Since 1945: Power, Politics, and Provincialism* (Toronto: University of Toronto Press, 1981) are among the few works that give the WICB controllers proper credit for reconstruction policies.

¹¹¹ Of note is the decontrol survey completed by the controllers in the fall of 1943. The findings of this survey were instrumental for the formulation of DMS decontrol policy. See LAC, RG28, series A, vol. 332, file 196-40-10-2, "Borden to All Controllers," 16 September 1943 and "Godsoe to Drewry re Relaxation of Controls," 18 September 1944. Evidence of this survey's impact is see in LAC, RG2, vol. 119, file W-32, "Address WICB chairman J. Godsoe to Toronto Board of Trade Club," 23 April 1945. In addition, Howe jealously guarded DMS' right to plan and coordinate key aspects of reconstruction, such as war plant conversion, from interference from the finance department's Economic Advisory Committee. See LAC, RG28, vol. 138, file 3-E-1-1, "H. Borden to K.B. Palmer," 28 August 1943.

¹¹² LAC, RG2, vol. 119, file W-32, "Address WICB chairman J. Godsoe to Toronto Board of Trade Club," 23 April 1945.

the public's openness to socialist alternatives.¹¹³ Though they had a vested interest in seeing a revival of liberal-democratic capitalism, the controllers shared King and Howe's perception of socialism as a threat to Canada's organizing ideologies. Indeed, DMS documents demonstrate that the controllers contributed to Howe's thinking on reconstruction.¹¹⁴ It is therefore likely that the minister's securitizing of Canadian capitalism was informed by his interlocutions with the controllers.

In sum, Canadians' belief that illiberal and socialistic modes of government might protect the personal economic stability afforded them by a planned economy and paternalistic federal executive was perceived by decisionmakers as a menace to Canada's organizing ideologies, and as a result, a political-economic threat to Canadian national security. When this political-economic threat to Canada's organizing ideologies manifest itself in 1943-1944, King and members of his Cabinet securitized the protection of Canadian liberal-democratic capitalism. Reinforcing this securitizing discourse were other elites, such as the Canadian business community, academics, senior government economists, and the managers of the Canada's industrial supply controls. Furthermore, the securitizing speech acts of senior Cabinet ministers and representatives of Canada's business and academic elites demonstrates that the Liberal government's response to the popularity of socialist ideas were grounded in more than partisan politics. Reconstruction policies served in part to reestablish a stable and prosperous liberal-democratic capitalist regime in Canada after the war, which in turn would allay Canadians fears about their personal economic security and draw the public away from socialism, thereby protecting

¹¹³ See for instance LAC, RG28, series A, vol. 332, file 196-40-10-2, "Coal controller E.J. Brunning to H. Borden," 27 September 1943.

¹¹⁴ For an example of this interaction see LAC RG28, series A, vol.332, file 196-40-10-2, "Construction Controller to Howe," 23 November 1943 and "Howe to Construction controller Schofield," 6 December 1943.

Canada's organizing ideologies. As stated by the deputy minister of finance, "in the face of steady employment and the ability to spend as well as earn, the interest in isms, reconstructed systems and radical change would fade. It varies directly with the public uncertainty over employment."¹¹⁵

2.3) Securitizing the Postwar Economic Base

Concerns about Canada's organizing ideologies were linked to fears about the stability of the postwar Canadian economic base. Unless the postwar economic base was stable and made more resistant to shocks, employment levels and Canadian living standards would be endangered, possibly deepening doubts about Canada's return to liberal-democratic capitalism. Without a stable and resilient economic base, a revived market economy would be susceptible to collapse, which would expose Canada's organizing ideologies to further criticism and doubt. The security of Canada's organizing ideologies thus depended on the stability of the postwar economic base.

Yet, beyond its import for the protection of Canada's organizing ideologies, the stability of the postwar economic base was also a matter of national security in its own right. A weak or unstable economic base was, by definition,¹¹⁶ a threat to Canadian economic security. As war's end neared in 1943, Canadian decisionmakers perceived three interrelated threats to the postwar economic base. First was a high and sustained level of peacetime unemployment, which threatened Canada's national income and wealth, as well as the state's productivity. Low industrial investment was a second threat to the postwar economic base. If industrial investment lagged after the end of the war, the

¹¹⁵ Quoted in Whitaker, *Government Party*, 143.

¹¹⁶ See chapter 1.

conversion of war plants to civilian production purposes would stall, causing Canadian productivity to fall significantly and unemployment to increase rapidly. Thirdly, the postwar economic base was endangered by inflation. Strong inflationary pressures threatened to throw Canada into recession or depression following a brief period of peacetime prosperity. An inflation-induced recession or depression would damage Canadian productivity, national income and wealth, and spark widespread unemployment. Whether these threats arose individually or in sets, these purely economic challenges menaced Canada and the stability of its postwar economic base. Accordingly, to protect the economic base, reconstruction policy would need to address these purely economic threats.

In identifying these threats to the postwar economic base, decisionmakers were heavily influenced by their memories of the Canada's economic experiences after the First World War and during the Great Depression.¹¹⁷ Contemporary economic trends were read in light of these memories and economic projections were informed by the perceived lessons of those times.¹¹⁸ When analyzing how decisionmakers understood and securitized these threats to Canada's postwar economic base, it is important to recognize the lasting impression these episodes made on Canadian elites.

Fears of mass postwar unemployment were caused by two factors: the employment conditions of the 1930s and economic theories holding that unemployment was endemic to modern market economies. As noted above, during the depression Canadian unemployment climbed to levels above twenty percent, leaving more than

¹¹⁷ H. Scott Gordon, "A Twenty Year Perspective: Reflections on the Keynesian Revolution in Canada," in *Canadian Economic Policy Since the War* (Montreal: Canadian Trade Committee, 1965); Mackintosh, "White Paper," 13.

¹¹⁸ Gordon, "A Twenty Year Perspective," 25; Campbell, *Grand Illusions*, 17; Norrie and Owsam, *History of the Canadian Economy*, 475.

800,000 employable Canadians out of work. While these figures improved towards the end of the decade, only the onset of war, and war production in particular, ultimately ended the employment crisis brought on by the depression. Once the war ended and war production ceased, most observers worried that the miserable employment conditions of the depression would return. The advisory committee on reconstruction created by the King Liberals and headed by F. Cyril James was convinced that the postwar economy would be plagued by mass unemployment.¹¹⁹ Similarly, officials at the department of finance argued that there would be a postwar labour surplus, “even in the most favourable circumstances.”¹²⁰ As J.L. Granatstein has put it, “Everyone in government, in the civil service, and in industry seemed afraid that the dislocation that would accompany the reconversion to peace would be marked by massive unemployment.”¹²¹

These views were reinforced by the theories of the British economist John Maynard Keynes. Keynes influenced several young Canadian economists, including W.A. Mackintosh, R.B. Bryce and Alex Skelton, all of whom were analysts at the department of finance during the war and into the postwar transition.¹²² According to Keynesianism,¹²³ the traditional assumption that supply created its own demand, known as Say’s law, was wrong. Left to their own devices, capitalist markets led to situations where supply outstripped demand, meaning that the number of goods and services produced exceeded the amount of purchasing power available to acquire them. When this

¹¹⁹ Granatstein, *Canada’s War*, 256.

¹²⁰ LAC, RG19, vol. 3976, file E-3-0, “Memoranda by R.B. Bryce and D.A. Skelton: Postwar economic policy,” 13 April 1943.

¹²¹ Granatstein, *Canada’s War*, 250.

¹²² For an overview of Keynesianism’s ascent in Canada, see Timothy Krywulak, “An Archaeology of Keynesianism: The Macro-Political Foundations of the Modern Welfare State in Canada, 1896-1948” (Ph.D dissertation, Carleton University, 2005); Keshen, *Saints*, 63; Owram, *Generation*, 282-294.

¹²³ Dudley Dillard, *The Economics of John Maynard Keynes* (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1948).

happened, Keynes noted, producers were left with inflated stocks and lower profits, which prompted them to reduce their costs by firing employees, cutting wages, cancelling new capital investments, and diminishing their purchases of other goods. Rather than improving things, these decisions worsened the supply/demand imbalance. As unemployment rose and wages fell, demand fell further, exacerbating the overstock problem. Similarly, the cancellation of new capital investments and reduction of purchases by firms also dragged down demand. As the demand decline spread across the economy and firms adopted the same cost cutting measures in response, markets atrophied, as happened during the early 1930s. Only when governments generated an increase in demand, as occurred with the spike in military spending beginning during the Second World War, could the logjam be broken. Hence, Keynes purported to show that the underlying cause of recessions and depressions was an insufficient level of aggregate demand, which he believed the market itself engendered through its vacillating business cycles. Keynesian economists believed that the structural flaws of the market economy would invariably reemerge in peacetime, plunging Canada back into high unemployment, and recession or depression, shortly after the war ended. This spelt a disaster for the postwar economic base.

As indicated by Keynes' theories, postwar capital investment levels were also a source of concern for the King government. For those who subscribed to Keynesianism, a postwar glut of capital investment would be a primary cause of a peacetime recession/depression and the return of mass unemployment. Since capital investment represented a critical portion of aggregate demand in modern market economies, Keynesians feared poor investment rates would harm Canada's peacetime economics

prospects. Absent a high postwar investment rate, national income, wealth, and productivity would decline and unemployment would vastly increase. This was an article of faith among Canadian Keynesians.¹²⁴ Yet they were not alone in acknowledging the importance of capital investments for the stability and health of the postwar economic base. Even those who doubted that Canada would be plagued by mass unemployment after the war recognized that a high capital investment rate was vital to prevent a dangerous economic downturn. Chief among these non-Keynesian advocates of investment was C.D. Howe. Though he was optimistic that the Canadian economy would enter a period of growth and high employment when the war was over,¹²⁵ Howe understood that this would not happen unless industry was committed to large-scale capital investments. A high level of investment, he knew, was necessary to reconvert war plants to civilian production. Unless this reconversion happened rapidly and throughout all sectors of the economy, industry would not be in a position to employ workers and returning soldiers when war production was slowed and eventually stopped. Likewise, if war plants were not converted with sufficient speed, Canadian industry would be unable to offer consumers the civilian goods they desired after years of war. In turn, Canadian manufacturers would lose sales to foreign firms which had reconverted, Canadian industrial profits would fall, and the incentive to invest in capital would further diminish, setting the stage for a recession/depression and mass unemployment, as Keynesians predicted. Securing a strong rate of capital investment was therefore essential to confront threats to the postwar economic base.

¹²⁴ LAC, RG19, vol. 3976, file E-3-0, "Postwar economic policy memoranda prepared for EAC by R.B. Bryce and D.A. Skelton," 13 April 1943.

¹²⁵ Bothwell and Kilbourn, *Howe*, 181.

While decisionmakers worried about peacetime unemployment and insufficient levels of capital investment, the most important structural economic threat to the postwar economic base was inflation. An unavoidable feature of wartime economies, inflation threatened to evaporate national income and wealth, stall production and investment, and spur a crippling recession or depression after the war. These ruinous effects were well understood by decisionmakers. During the First World War, inflation had precipitated a rapid increase of the cost of living. By the end of that war, the cost of living had increased by fifty-four percent. Average wages, on the other hand, rose by only forty-five percent.¹²⁶ This trend accelerated in 1919-20, when the cost of living rose by an additional twenty percent, while the percentage of wage increases stayed in the mid-teens.¹²⁷ When workers saw the value of their wages and wartime standard of living declining, they reacted by initiating a series of crippling strikes, the general strike in Winnipeg being the largest and most dramatic. In addition to stirring discontent with Canada's organizing ideologies, these strikes demonstrated the perilous relationship between inflation and labour unrest. Inflation could both cause labour unrest and be inflamed by strikes, since work stoppages increased production costs, exacerbated supply shortages, and could lead to higher wages and, as a result, price increases.¹²⁸ Equally worrisome, after a brief year of prosperity that followed the First World War, uncontrolled inflation had thrown the Canadian economy into a deflationary recession in 1920-22. The cause of this downturn was simple: as inflation climbed, the value of money dissipated, with the result that prices rose so high that stagnant savings and even

¹²⁶ Canada, Advisory Committee on Reconstruction, *Sequence of Economic Events in Canada, 1914-1923* (Ottawa, 1941), 8-9.

¹²⁷ *ibid.*, 16.

¹²⁸ LAC, RG19, vol. 3992, file W-2-2, "WPTB memorandum on price ceiling problems," 13 April 1943.

inflated incomes could not purchase basic goods. When this happened, the price structure collapsed and firms cut wages and employment dramatically, leaving both the public and industries with neither the means nor the inclination to spend, causing the economy to stall.¹²⁹

Were inflation allowed to have comparable, or worse, effects after the Second World War, the economic base would be imperilled. Once the federal government began thinking about the postwar transition, therefore, senior decisionmakers realized that stabilization policies were required to protect the Canadian economy against the ravages of unchecked inflation. In light of what occurred after the First World War, it was understood that stabilization measures were indispensable for confronting threats posed by inflationary pressures that endangered the successful reestablishment of a steady economic base and the protection of the “fabric of our economic life”.¹³⁰ As the federal government warned Canadians in June 1944:

History shows that that a *postwar* inflation probably would be more violent than wartime inflation. This was the case in countries that suffered under inflation in all previous wars. Even in Canada the cost of living in dollars and cents when up in the two years 1919 and 1920 as much as it had in the *four* years from 1914 to 1918. But inflation would not end the matter. The inflation of 1914-20 was inevitably followed by a collapse in prices: that is by deflation, which brought impoverishment and unemployment to many. Deflation left many countries in a state of severe depression, and had serious effects on Canadian industry and agriculture. When prices fall, as they always do after inflation, manufacturers and distributors find themselves with merchandise worth less than it costs;

¹²⁹ LAC, RG19, vol. 393, file 101-102A-6, “Reference Handbook: Canada’s Wartime Measures for Economic Stability,” June 1944.

¹³⁰ LAC, MG32, series B6, vol. 19, “Douglas Abbott address to Sherbrooke Chamber of Commerce,” 30 March 1944. In addition, W.C. Clark warned that stabilization policies were necessary to avoid “chaotic conditions which would defeat the ends of which the government’s economic policy has pursued during the war and frustrate its postwar efforts.” Clark’s comments are likely based on Donald Gordon’s opinion that there would be a “great danger of chaos” if stabilization measures were discontinued after the war. See LAC, RG28, series A, vol. 138, “W.C. Clark to A.D.P Heeney,” 31 March 1943 and “Minutes of Advisory Committee on Economic Policy,” 28 April 1943.

producers find their selling prices are lower than production costs. The result is that production is curtailed and unemployment occurs.¹³¹

The King government was already well acquainted with the problem of inflation when the prospect of victory appeared in 1943-44. War had introduced several inflationary pressures into the Canadian economy between 1939-41.¹³² The first of these pressures was the result of the relationship between greater wartime employment, war production, and supply scarcities. When war production began in earnest, approximately half of the supplies regularly used to make civilian goods were diverted to military requirements. Along with the conversion of factories from civilian to military manufacturing, the diversion of supplies meant that there were fewer civilian goods available for purchase. Had the demand for consumer goods remained constant, this reduction in the number of available consumer goods would have --independently of other factors-- led to an increase in the prices of these goods, since the same amount of demand would have been competitively bidding for a restricted quantity of supplies. This basic increase in prices, however, was compounded by the rise of demand that resulted from the boom in wartime employment. To be exact, as more people entered the workforce, overall purchasing power mounted, as did the demand for consumer goods. Hence, demand was rising while supply fell, forcing prices even higher.

Rising prices then set off a second set of inflationary pressures. As people saw the price of consumer goods, and consequently their cost of living increase, they pressed for

¹³¹ LAC, RG19, vol. 393, file 101-102A-6, "Reference Handbook: Canada's Wartime Measures for Economic Stability," June 1944.

¹³² The following overview of inflationary economics is based on LAC, RG19, vol. 393, file 101-102A, "Canada's wartime measures for economic stability," June 1944; LAC, RG19, vol. 388, file 101-102-38, "Constitutional and economic problems of concern to Wartime Prices and Trade Board," 15 June 1945; Canada, Dominion Bureau of Statistics, *Canada Year Book, 1943-44* (Ottawa: King's Printer, 1944), 776-791; Slater, *War, Finance and Reconstruction*, chapters 7-8.

higher wages and salaries. Employers had to acquiesce in these wage and salary requests, since enlistment in the armed forces and the expansion of war production were creating a scarcity of labour. Under conditions of scarce labour, wages mirrored the behaviour of prices when demand for goods outpaced supply. Employers with increased labour needs competed with one another for a limited pool of workers by offering higher wages.¹³³ As wages increased, however, the cost of producing goods also rose. Ascending production costs, in turn, led manufacturers to further increase prices, which sparked further wage increases. The economics of war production were locking prices and wages in an inflationary spiral.

Exacerbating the problem were a slew of other, less obvious inflationary pressures. A housing shortage and higher wages prompted landlords to increase rents, moving the cost of living still higher. Enlistment in the armed forces and the requirements of war production reduced the number of skilled and experienced workers. This caused increases in production costs, since less experienced and skilled workers took longer to manufacture goods. Scarce supplies and higher production costs led to the manufacture of lower quality goods, forcing consumers to buy certain products in greater quantities to compensate. High prices on imported goods unavailable in Canada also increased production costs. Export markets that offered better prices for Canadian supplies and goods worsened scarcities and raised prices. Domestic black markets had the same effect. Finally, speculation, the buying of goods with the intent of selling them later at a higher price, though rare, added another inflationary pressure.

Ottawa took only a few steps to check inflation during the first two years of the Second World War. Officials at the finance department believed that wages and price left

¹³³ McInnis, *Confrontation*, 26-27.

depressed by a decade of economic hardship should be given room to climb.¹³⁴ Farm prices and labourers' wages, in particular, were thought to be artificially low. Consequently, the federal government's main anti-inflationary measure during this period was taxation, a rather imprecise stabilization tool. Taxation helped slow inflation by absorbing purchasing power. If individuals and firms had less to spend, it would take longer for demand to far outpace supply. Following the same logic, Ottawa also used savings programs to help stifle inflation. Government bonds, for instance, diverted purchasing power while promising individuals a return of 1.75-3 percent on their money.¹³⁵ Beyond taxes and savings, the federal government relied on a selective system of supply and demand management to control price increases. On 3 September 1939, Ottawa created the Wartime Prices and Trade Board (WPTB). Charged with providing "safeguards under war conditions against any undue enhancement prices of food, fuel and other necessities of life," the WPTB focused its anti-inflationary efforts on distribution controls between 1939-41, preventing sharp price increases in various regions and sectors.¹³⁶ Lastly, in December 1940, after large wage increases were negotiated in the aircraft and machine industries, Ottawa passed an order-in-council urging that wages not be allowed to surpass the "highest rate established during 1926-29."¹³⁷ It was a sign of strict stabilization measures to come.

The expansion of Canada's war effort in mid-1940 amplified inflationary pressures. Increased government spending, additional military enlistments, and the explosion of war production further constricted supply and labour scarcities. Production

¹³⁴ Slater, *War, Finance and Reconstruction*, 127.

¹³⁵ *ibid.*, 82.

¹³⁶ *ibid.*, 129.

¹³⁷ Keshen, *Saints*, 57.

costs, wages, and prices began an alarming ascent. Wholesale prices rose 11.2 percent in 1941, while wages and the cost of living each climbed by ten percent.¹³⁸ The rapidity of these increases warned decisionmakers that piecemeal measures to combat inflation were no longer sufficient. Notwithstanding Ottawa's massive tax hikes and a boon in war bond sales, drastic action was required to avoid a repeat of the previous war's inflationary disaster. Following a heated debate over how to tackle the problem, Cabinet agreed to impose a mandatory ceiling on prices and wages. On 18 October 1941, the prime minister informed the public that, as of 1 December 1941, prices would be capped at the highest level reached during a 'base period' extending from 15 September to 11 October. Wages were also frozen at the rate they held on 15 November. Administering the price ceiling would be a strengthened WPTB led by an unwavering new chairman, Donald Gordon. The wage freeze, meanwhile, would be overseen by a new body, the National War Labour Board (NWLB).

Under Gordon's leadership, the WPTB enacted a number of measures to keep prices in line with the base period freeze and contain the cost of living.¹³⁹ Wholesale prices were closely monitored. Citizens were recruited to report unauthorized retail price increases. Government subsidies were transferred to farmers to slow an increase in the price of scarce or essential agricultural goods, while offsetting rising production costs and a diminishment of farmers' standard of living. Subsidies and bulk purchases were also used to keep down the price of key imports. Export controls were imposed to prevent sellers from seeking better prices in the United States and other foreign markets. Rationing was enforced to ensure fair access to scarce goods and to prevent hoarding and

¹³⁸ *Canada Year Book 1943-44*, 731, 785, 789.

¹³⁹ *ibid.*, 776-783.

reselling. Simplification and standardization programs were launched to eliminate wasteful production practices and curb the manufacture of sub-quality goods. Rent controls were put on housing accommodations and later on rooms. For its part, the NWLB tried to maintain the ceiling on wages by blocking raise petitions and by offering flat-rate bonuses indexed to increases in the cost of living. These bonuses were essentially wage subsidies. The NWLB, though, lacked the WPTB's commitment and resolve. A year after the freeze was announced, the NWLB permitted a variety of wage augmentations. Thanks to countervailing price control measures implemented by the WPTB, however, the effect of these wage increases on the rate of inflation and the cost of living was small.¹⁴⁰ More problematic in that regard were uncontrollable inflationary pressures, such as black markets and shipping costs, and apparently unpreventable increases in food prices.¹⁴¹

Canada's anti-inflation program was the most severe and comprehensive of any Allied state. Because of the strictness of the stabilization program, the Canadian cost of living rose less than in the United States and the United Kingdom.¹⁴² Stabilization protected the value of workers' real wages and their standard of living, in contrast with the previous war. The WPTB's efforts to contain inflation, however, were by no means easy. Less than a year after the wage and price freeze was mandated, labour unions organized a series of strikes, over four hundred in 1943 alone. Labour leaders were incensed by the wage ceiling and determined to see it lifted. The prime minister, the minister of labour, and the NWLB sided with the labour unions against Gordon and his

¹⁴⁰ Slater, *War Finance*, 154-156; LAC, MG32, series B6, vol.19, "D. Abbott notes for talk on CHAB radio," undated 1944; LAC, RG19, vol. 393, file 101-102A-6, "Detailed outline for labour speech," undated.

¹⁴¹ Canada, Dominion Bureau of Statistics, *Canada Year Book, 1946* (Ottawa: King's Printer, 1946), 863.

¹⁴² Canada, Dominion Bureau of Statistics, *Canada Year Book, 1945* (Ottawa: King's Printer, 1945), 898.

contention that the freezes on wages and prices were indivisible.¹⁴³ If one slipped, he argued, the other would shortly follow, and the inflationary spiral of 1941 would return.¹⁴⁴ Luckily for Gordon, his assessment was backed by the minister of finance, and a convenient compromise was found, keeping the spirit of the wage freeze intact. Beyond labour unions and a jittery prime minister, Gordon and Ilesley were compelled to defend the stabilization program against a myriad of other challengers. Influential members of the financial district, including prominent businessman Walter Gordon, doubted whether stabilization could, or should, last more than a year.¹⁴⁵ Retailers regularly complained about the price ceiling. Some businesses published anti-stabilization pamphlets.¹⁴⁶ Farmers resented the price freeze and the minister of agriculture, James Gardiner, regularly questioned the wisdom of the anti-inflation measures in Cabinet. Worse still, public support for stabilization was tentative at best.¹⁴⁷

Since the stabilization program could not function without the active support of Canadians, any public wavering was a cause for concern. If the public or vested interests such as unions or the business community forced the government to rescind key anti-inflationary measures, the threat to Canadian national economic security would be greatly amplified. As a result, to bolster the public's support of the stabilization program, warn Canadians of the dangers posed by inflation, and justify the peacetime retention of exceptional powers required to maintain anti-inflationary measures, the King government securitized the inflationary threat to Canada's economic base.

¹⁴³ LAC, WLMK Diary, 5-7 October 1943 and 3 November 1943.

¹⁴⁴ LAC, RG19, vol. 3992, file W-2-2, "WPTB memorandum on price ceiling problems," 13 April 1943.

¹⁴⁵ LAC, RG19, vol. 3992, file W-2-2, "W. Gordon to D. Gordon," 11 February 1943.

¹⁴⁶ LAC, RG19, series E-1(d), vol. 2733, file 700-14, "H.W. Winkler to J.L. Ilesley," 25 March 1943.

¹⁴⁷ LAC, RG19, series E-1(d), vol. 2733, "Wartime Information Board survey on attitudes towards the stabilization programme," 22 September 1943; LAC, RG19, vol. 393, file 101-102A-6, "Report on economic stabilization information program," 25 September 1944 and "Wartime Information Board survey 'What about inflation?'," 16 October 1944.

In a January 1944 statement, prime minister King warned Canadians that “if we are to win the battle against unemployment in the postwar period, we must first of all battle against inflation.”¹⁴⁸ The marital language of King’s characterization of the government’s stabilization goals unmistakably securitized the threat of inflation. Three months later, in March 1944, Douglas Abbott, the Parliamentary assistant to the minister of finance, compared the government’s stabilization program to the prolonged struggle against the Axis powers:

On the whole, I think it will be agreed that we have put up a good fight and nothing would give me greater satisfaction than to be able to say, tonight, with confidence that the forces of inflation have been stopped dead in their tracks or are retreating like the Germans before the Red Army. Unfortunately, there is *no reason whatever to believe that the danger is over*. On the contrary, those who are most closely in touch with the situation both in this country and elsewhere foresee a most *critical period ahead*.¹⁴⁹

In line with the prime minister, Abbott’s presentation of the threat of inflation in militaristic terms, and the references to continuing dangers posed by inflation, cast inflationary pressures as a threat to Canada’s national economic security. In both cases, the implication was that inflation could not be address as a normal economic difficult or problem; the peril to the Canadian state was too great.

Pamphlets published by the WPTB shortly after victory in the Pacific were more explicit. One booklet (Figure 1) portrayed inflation as a dark, sinister, gnome-like creature who was breaking Canada apart. Following the same theme, a second pamphlet represented inflation and deflation as monsters and urged Canadians to confront and beat

¹⁴⁸ Quoted in LAC, MG32, series B6, vol. 19, “Address by D. Abbott to Women’s Canadian Club,” 12 January 1944. Emphasis added.

¹⁴⁹ LAC, MG32, series B6, vol. 19, “Address by D. Abbott to Sherbrooke Chamber of Commerce,” 30 March 1944.

them. Another (Figure 2) likened inflated prices to a speeding, uncontrollable car, which only a consistent stabilization program could stop. In a third (Figure 3), inflation is represented as a harrowing waterfall that threatens to wreck Canada. The state's only hope, the cartoon shows, are taxes and wage and price controls. A fourth pamphlet (Figure 4) compared inflation to a deadly guerrilla fighter, battling behind the lines to harm Canadians. Using explicit military language, the pamphlet warned Canadians that there was "hard fighting ahead" against the "new dangers" posed by inflation. A fifth pamphlet (Figure 5) declared that hoarders, those who stockpiled scarce goods, were public enemies, foes of the state and the public and national interest. Still other educational publications and publicity campaigns mounted by the WPTB used similar images and analogies to highlight the threat inflation posed to the postwar economic base.¹⁵⁰

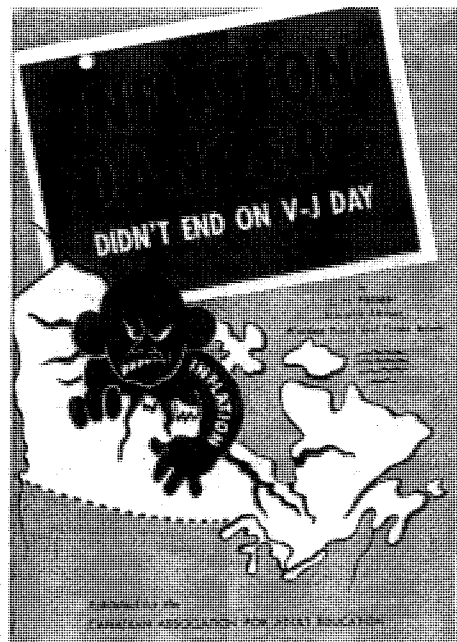


Figure 1: WPTB inflation information pamphlet. LAC, RG19, series E-1(d), vol. 2733

¹⁵⁰ A number of examples are available in LAC, RG19, series E-1(d), vol. 2733.



In the last war, the Canadian cost of living went up to over 190% and then prices collapsed suddenly. In this war the cost of living has been held to an increase of only 18%—but the danger is not over. At this stage of the war and in the times which lie immediately ahead, women's help is needed more than ever. What are some of the urgent problems and how can we meet them? Here are questions which women are asking, as dealt with by Donald Gordon in an address to the Women's Canadian Club of Toronto on March 6, 1945, and broadcast over a national network.

Figure 2: Canada, Wartime Prices and Trade Board, *Women's Help Wanted!* (Ottawa: King's Printer, 1945)

MAY BE YOU DON'T REMEMBER?...

You don't have to read far back in history to learn the dangers of inflation. It happened right in this country during and after World War I. All you have to do is look up the files of newspapers in your own home town during the period from about 1916 to 1923.

In 1914 as in 1939 the outbreak of war meant more workers employed. ...

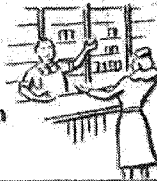


who had more  to spend

War weapons had to be produced so....



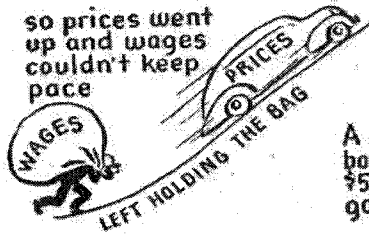
there were fewer civilian goods



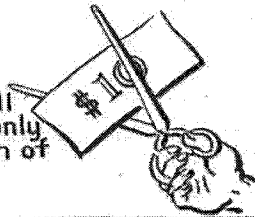
People were willing to pay more



so prices went up and wages couldn't keep pace



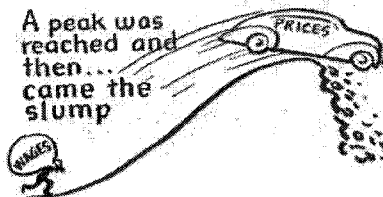
A \$10 bill bought only \$5 worth of goods



Returning soldiers found their mustering out pay insufficient



A peak was reached and then... came the slump



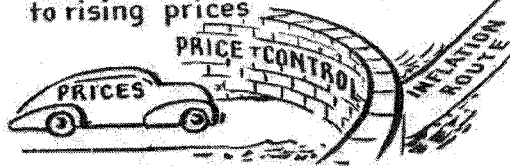
Factories closed



No jobs... A depression



THIS WAR
Price control has been a barrier to rising prices



Rationing has helped distribute scarce goods fairly - and it's all helped to keep inflation at bay

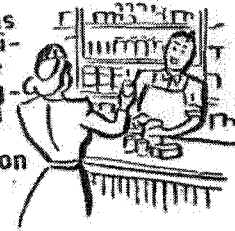


Figure 2: WPTB inflation information pamphlet. LAC, RG19, series E-1(d), vol. 2733



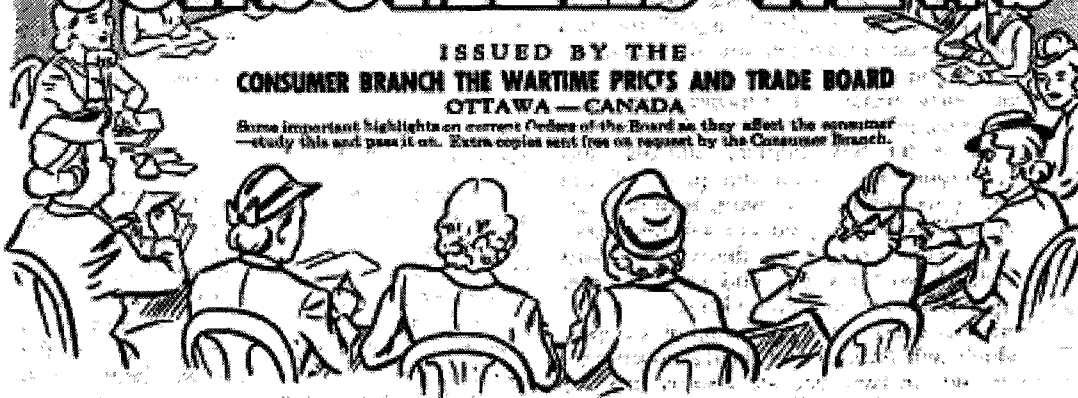
WE'RE ALL IN THE SAME BOAT

Figure 3: RG19, vol. 366, file 101-102-3, "The Wartime Prices and Trade Board, Retail Bulletin," 30 June 1943.

CONSUMERS' NEWS

ISSUED BY THE
CONSUMER BRANCH THE WARTIME PRICES AND TRADE BOARD
OTTAWA — CANADA

Some important highlights on current Orders of the Board as they affect the consumer—study this and pass it on. Extra copies sent free on request by the Consumer Branch.



No. 23

October 1st, 1943

HARD FIGHTING AHEAD

The Fifth Year of World War No. 2 opens with brighter prospects for final victory, but with the certainty that the hardest battle has still to be fought. And this applies not only to the actual fighting fronts but also to those behind-the-line struggles where defeat can deal as deadly a blow to our own fighting man as an enemy guerilla with a knife.

To Meet New Dangers

Make no mistake about it; the battle for the safety of our homes against inflation is going to get stiffer. It calls more and more for the co-operation and understanding of all Canadian housewives if the battle is to be won.

With the coming of the Fall, the Women's Groups and Organizations will start to hold their regular meetings again. It is of the utmost importance that they should elect one of their number to act as a Liaison Officer who will keep them in contact with the Women's Regional Advisory Committees of the Wartime Prices and Trade Board. There are 325 of these Committees, elected by the women themselves, all across the country, from Victoria to Halifax. They are YOUR voice in bringing Consumer opinion to the Board. On YOUR behalf they will renew their pledge to Watch Prices—Keep Ration Laws—Conserve the Nation's Resources. They will place YOUR problems before the Board. Give them YOUR support, and you will be helping to do your share of the fighting to keep Canadian homes fit for Canadian soldiers to return to when they have destroyed the Axis.

"It is not given to the cleverest and the most calculating of mortals to know with certainty what is their end, yet it is given to quite a lot of simple folks to know every day what is their duty—that is the path along which we shall march until our work is done . . ."

Winston Churchill in Quebec.

Figure 4: Canada, Wartime Prices and Trade Board, *Consumers' News*, No. 23 (Oct. 1943)

PUBLIC ENEMIES . . . THE HOARDERS

Public Enemies . . . The Hoarders

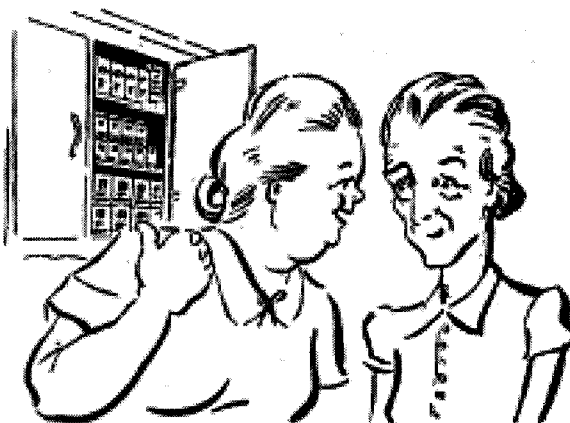
In a recent article in *Consumers' News* it was pointed out that amongst the enemies in our midst could be counted thoughtless or malicious SPREADERS of RUMOURS. Now we would like to add a word or two on their kindred spirits the HOARDERS, for the activities of these two public enemies are closely related.

Hoarders can be divided into two types—those who listen to rumours and then indulge in panic buying with the instinct of self preservation—and those who can afford to make hoarding a deliberate policy in order that in times of possible shortage they may be in a better position than their neighbours. There is no excuse for either kind. In both cases their activities have a deplorable effect upon public morals and inevitably bring about shortages which could have otherwise been avoided. An extension of compulsory rationing is a certain cure for the evils of hoarding. It will not be lightly undertaken, as it would use money and manpower urgently needed for direct war production.

Canadian citizens need to be reminded that a great deal depends on maintaining a high standard of public co-operation in the very difficult time ahead. Individual selfishness can very easily sabotage the total plan for victory, as can be seen by reading this extract from a letter recently received from an industrial town:—

"Many of the women in industry are married women with children. They are trying to do a double job and their work is vital to munitions output. During recent panic buying of butter in one of our large industrial centres, many women arrived home at night to find stores sold out. They experienced great difficulty in securing supplies for themselves and their children, while other people had well-stocked cupboards."

"Personnel directors in large industries tell us that absenteeism and decreased production amongst women workers can often be traced directly to discouragement and resentment.



The woman who selfishly buys more than her immediate needs may be depriving our fighting men of the tools they need to finish the job.

Let the woman in the home think of the women in industry before she grabs off more than her share!"

Hoarders who did not get away with it

The Enforcement Administration reports a number of cases of infraction of the Board's hoarding and rationing regulations during recent weeks. Here are a few examples:—

A Montreal consumer was fined \$100.00 and costs on a charge of hoarding tea, coffee and sugar.

At Zhoda, Manitoba, a householder was fined \$200.00 and costs for hoarding sugar.

A consumer of the Wisdom District, Alberta, was fined \$75.00 and costs for hoarding sugar.

A householder at Halifax was fined \$50.00 and costs for hoarding groceries and other foodstuffs.

• • • • •
Tune in to the "Soldier's Wife" programme every morning Monday to Friday inclusive, over CBC network. (Consult your local paper for time and station.)

Figure 5: Canada, Wartime Prices and Trade Board, *Consumers' News*, No. 13 (Dec. 1942)

Canada's wartime stabilization program rested on the emergency powers granted the federal government by the War Measures Act. The Act allowed the WPTB to control prices, ration goods, impose simplified production standards, and manage subsidies. It further permitted the NWLB to control wages, direct Canada's human resources, and manage wartime labour relations, and provided DMS with the authority to oversee industrial supply distributions and controls. Likewise, the department of finance relied on the powers granted it by the Act to use exceptional taxing powers to help contain inflation. Without the exceptional powers granted the federal government by the War Measures Act, there could not have been a stabilization program. When outlining the means necessary to contain inflation during the postwar transition, therefore, decisionmakers in Ottawa recognized that the federal executive would need to retain the emergency powers of the War Measures Act in peacetime. As the economic advisory committee noted in April 1943: "It is of the greatest importance that the Dominion should have clear and unequivocal powers to maintain whatever temporary controls are necessary during the period of transition from war to peace. This period may last for two or three years and will be marked by a continuation of severe shortages and inflationary pressures."¹⁵¹

This proposal to retain exceptional powers in peacetime to effectively confront the threat of inflation also establishes that the protection of the postwar economic base was securitized by the King government. Had inflation been viewed or treated as a mere economic problem or commonplace irritant, recourse to exceptional powers would not have been required or sought. Instead, federal officials identified inflation as a national security threat of sufficient import to warrant an extension of the executive's wartime

¹⁵¹ LAC, RG28, series A, vol. 138, "Constitutional problems of Dominion Postwar Policy," April 1943.

emergency powers. Indeed, the perceived danger of inflation prompted deputy finance minister W.C. Clark to warn Cabinet that these emergency powers needed to be guarded against legal challenges. As Clark explained to A.D.P Heeney, the Cabinet secretary: “Should such restrictions be abolished in the period following the end of hostilities, not by decision of the Government or Parliament but by a decision of the courts, there might well ensue *chaotic conditions* which would defeat the ends which the government’s economic policy has pursued during the war and frustrate its postwar efforts.”¹⁵² By advocating a circumvention of regular legal procedures and the retention of exceptional powers, Clark completed the securitization of inflation and the threat it posed to Canada’s postwar economic base.

All told, in addition to protecting Canada’s organizing ideologies, the King government’s reconstruction policies served to defend the postwar economic base against the interrelated threats posed by mass unemployment, sparse capital investments, and above all, inflation. Were any of these threats permitted to assault the economic base, Canadian economic security would be imperilled. Each threats endangered national income and wealth, wartime employment levels, and Canadian industrial production. Similarly, a weakened economic base would act as a breeding ground for threats to Canada’s organizing ideologies, since living standards and a prosperous peacetime economy were dependent on the maintenance of a resilient and stable economic base. In light of Canada’s experiences during the First World War and the Great Depression, moreover, the seriousness of these economic threats was widely acknowledged throughout the federal government. For the King government, a key component of

¹⁵² LAC, RG19, vol. 3976, file E-3-0, “W.C. Clark to A.D.P Heeney,” 31 March 1943. Emphasis added.

reconstruction policy was the securing of the postwar economic base, a national security objective it would maintain exceptional powers to accomplish.

2.4) Reconversion, Stabilization, and Reform

Three types of reconstruction policies were formulated by Canadian decisionmakers. Reconversion policies formed the first set of policies. In line with the ultimate reconstruction aims of sustaining a stable economic base and reestablishing liberal-democratic capitalism in Canada, reconversion policies were designed to transform a planned wartime economy into a market-based economy focused on the production of civilian goods. Decisionmakers, however, understood that reconstruction could not rely on reconversion alone. Since the protection of the economic base depended on maintaining wartime income, production, and employment levels, and because the security of Canada's organizing ideologies rested on the public feeling that their personal economic security and standard of living were being protected, other measures were needed to curb inflation during the reconversion process. Were inflation left unchecked, national income and wealth, and Canadians' standard of living, would suffer and a recession or depression would occur after an initial period of postwar prosperity. What was more, if standards of living dropped or a recession/depression gripped the reconverted economy, national production and income levels would plummet, harming the economic base. In turn, the public's worst fears about the capitalism would be confirmed and more Canadians would embrace socialism, putting Canada's organizing ideologies at even greater risk. The continuation of wartime stabilization policies were thus required to operate alongside reconversion. Finally, government economists argued

that reconstruction should also include a set of economic reforms. Meant to address perceived shortfalls in the operations of a market economy that could lead to unemployment and depression, these reform policies aimed to give the federal government the power to intervene in the country's economic affairs and correct dysfunctions attached to the business cycle. Like inflation, the structural flaws of the market economy were held to be a threat to the overarching goal of reconstruction if left unaddressed.

Reconversion

Reconversion was the fundamental goal and driving force behind reconstruction.¹⁵³ All members of the Liberal Cabinet and senior civil service agreed that reconstruction first and foremost must be aimed at transforming a planned wartime economy focused on war production to a market economy centered on the production of civilian goods. It was also understood that, whatever role the government played in the economy after reconstruction, this role should be marginal and secondary to private enterprise.¹⁵⁴ In practical terms, this meant that employment, capital investments, and industrial expansion should primarily be the responsibility of the private sector.¹⁵⁵ Similarly, once the reconversion process was complete, interest rates, credits and loans, supply distribution, prices, and wages should be determined by market forces rather than government controls. While decisionmakers disagreed about the pace of reconversion and

¹⁵³ As minister of reconstruction, Howe admitted that his first objective was reconversion. "Others" were left to "develop other problems associated with reconstruction." See LAC, MG27III-B20, vol. 147, file 89-2, "Howe notes for Trade and Labour Congress speech," 26 October 1944.

¹⁵⁴ LAC, MG27III-B20, vol. 147, file 89-2, "Howe notes for Trade and Labour Congress speech," 26 October 1944.

¹⁵⁵ Canada, Department of Reconstruction, *Employment and Income with Special Reference to the Initial Period of Reconstruction* (Ottawa: King's Printer, 1945), 3-4.

the likelihood that the private sector would be willing or able to provide sufficient levels of employment and investment to sustain wartime levels of production, income, and prosperity,¹⁵⁶ the underlying logic of reconversion was rarely questioned. Reconversion would be the core of reconstruction and those dissented from this conclusion were excluded from reconstruction policymaking.

At the forefront of reconversion policymaking were DMS, the WICB, and as of 1944, the new department of reconstruction (DOR), with the powerful Howe as its minister.¹⁵⁷ Howe, his officials, and the WICB controllers devised a reconversion plan that called for a number of measures to confront postwar economic threats and transform the postwar economy in an orderly, yet rapid, fashion. First among these measures were industrial and supply decontrols. Controls were gradually lifted on timber, power, machine tool production, oil, coal, and steel.¹⁵⁸ These decontrols were designed prudently to reintroduce a market supply system as the war in Europe was coming to a close. Second came war plant conversions and the cancellation of war production contracts.¹⁵⁹ War contracts were selectively terminated and the owners of private war factories were gradually encouraged to alter their plants for the manufacture of civilian goods. If plant owners proved hesitant to abandon war production or were believed to have grown dependent on the profits assured them by war and the planned economy, Howe acted decisively to accelerate their acceptance of reconversion's realities.¹⁶⁰ A third set of measures was centered on the selling of war surpluses and government war production

¹⁵⁶ LAC, RG28, series A, vol. 332, file 196-40-10-2, "Coal controller Brunning to H. Borden," 27 September 1943; LAC, RG2, vol. 119, file W-32, "J.R. Baldwin to WICB chairman J. Godsoe," 21 December 1944.

¹⁵⁷ Bothwell and Kilbourn, *Howe*, 178-79.

¹⁵⁸ *Canada Year Book 1946*, 836.

¹⁵⁹ *ibid.*, 837.

¹⁶⁰ Bothwell and Kilbourn, *Howe*, 187.

facilities, and the privatization of some Crown corporations. To facilitate the selling of war assets and plants, Ottawa created the War Assets Corporation. Between July 1944 and March 1946, it sold \$134 million worth of tools, land, equipment, metals, and other goods to the private sector.¹⁶¹ Nineteen Crown corporations, meanwhile, were privatized between 1944-46.¹⁶²

Lastly, the federal government offered private companies tax incentives and loans to invest in new capital equipment, plant modernization, and infrastructure upgrades.¹⁶³ Wartime controls, supply scarcities, and corporate and excess profit taxes had limited capital investments which did not boost war production capacity. Coupled with the steep decline in capital investment during the Great Depression, these wartime constraints created a backlog of potential outlays. Howe, therefore, expected that a properly structured tax incentive would unleash a flood of private sector investment during the transition period. These new investments, in turn, would translate into employment opportunities --enough, he hoped, to absorb returning soldiers looking for work and those left jobless by the scaling back of war production.¹⁶⁴

Historians have tended to portray reconversion as a seamless, unfettered process. It was not. The success of the reconversion process was precarious and rife with uncertainties.¹⁶⁵ A few missteps or unanticipated contingencies could undermine the economic base and Canadians' faith in reconstruction as a whole, confirming their skepticism about the wisdom of reverting to a market economy. Industrial decontrols, for

¹⁶¹ *Canada Year Book 1946*, 840.

¹⁶² *ibid.*, 836.

¹⁶³ *ibid.*, 834, 839-40.

¹⁶⁴ LAC, MG27III-B20, vol. 147, file 89-2, "Howe notes for Trade and Labour Congress speech," 26 October 1944; Bothwell and Kilbourn, *Howe*, 182.

¹⁶⁵ LAC, RG28, vol. 138, file 3-E-1-1, "DMS financial advisor F.H. Brown to DMS secretary R.T. Donald," 7 September 1943 and "DMS Advisory Committee on Economic Policy memo," 15 November 1943; Owram, *Generation*, 212.

instance, had to be properly timed to prevent supply disruptions, shortages, “chaotic competition,” and wholesale price surges.¹⁶⁶ Private capital investments and civilian production had to be encouraged, but care also had to be taken to avoid overheating or stagnating the economy.¹⁶⁷ The cancellation of war contracts could not leave entrepreneurs unprepared for the adjustment to civilian production, yet too much leniency might unduly slow the transition. In short, reconversion required careful management and diligent oversight to guarantee that the entire reconstruction project did not go awry. The security of the Canadian economic base and Canada’s organizing ideologies demanded no less. As the chairman of the WICB, J. Gerald Godsoe, noted in April 1945: “The task of reconverting smoothly is next in importance only to winning the war.”¹⁶⁸

Stabilization

Donald Gordon, chairman of the WPTB, knew that the true mettle of the stabilization program would be tested when reconversion began in earnest and hostilities ended.¹⁶⁹ Four aspects of reconversion would complicate stabilization. First, reconversion’s industrial decontrols would intensify inflationary supply scarcities and price pressures. To minimize the inflationary impact of decontrol, Gordon urged a coordinated approach to decontrol between DMS, the reconstruction department, and the

¹⁶⁶ LAC, RG28, series A, vol. 332, file 196-40-10-2, “Motor vehicle controller Berry to H. Borden,” 27 September 1943; “Wood fuel controller Whalley to H. Borden,” 4 October 1943; “Chemicals controller Sterne to H. Borden,” 22 October 1943; “Construction controller Schofield to H. Borden,” 23 November 1943; LAC, RG19, vol. 388, file 101-102-38, “D. Gordon to C.D. Howe re interdepartmental decontrol coordination,” 26 March 1945.

¹⁶⁷ LAC, RG28, series A, vol. 332, file 196-40-10-2, “Metals controller Bateman to H. Borden,” 24 September 1943.

¹⁶⁸ LAC, RG2, vol. 119, file W-32, “J. G. Godsoe address to Board of Trade Club,” 23 April 1945.

¹⁶⁹ The following is based on LAC, RG19, vol. 3993, file W-2-5, “Memo from D. Gordon to W.C. Clark re the WPTB and decontrol procedures now and postwar,” 17 January 1944 and LAC, RG19, vol. 388, file 101-102-38, “Constitutional and economic problems of concern to the Wartime Prices and Trade Board during the transition from war to peace,” 15 June 1945.

WPTB. Second, private capital investments and the resumption of civilian production would lead manufacturers to seek higher prices for their goods and exacerbate supply scarcities in certain sectors, such as construction, metals, and machine tools. Since manufacturers would be spending funds on new equipment, they would be inclined to transfer these costs to consumers. Third, Canadians would be eager to spend their increased incomes and savings on newly available consumer goods, especially new cars and other durable products that were unavailable during the war. In fact, the success of the entire reconversion process was predicated on the assumption that Canadians were anxious to spend. Feverish consumption and the lag between the demand and availability of new goods, however, would further tempt retailers and manufacturers to raise their prices.¹⁷⁰ Fourth and finally, given that the philosophy behind reconversion and the goal of reconstruction as a whole was the dismantling of a planned economy, government intervention, and the resumption of a market system, the WPTB's own controls, subsidies, rationing and other programs were to be gradually rescinded during the transition period. Hence, the WPTB would have to confront mounting inflationary pressures while dismantling the very mechanisms that were keeping inflation at bay. As Gordon admitted during the first phase of reconversion in early 1944, "objectives will often conflict in the decontrol period, perhaps even more than they do today."¹⁷¹

Further complicating an effective application of the stabilization program during the transition period would be the behaviour and attitudes of labour unions, farmers, and the general public. Labour's insistence upon wage increases and impatience with the

¹⁷⁰ LAC, RG19, vol. 388, file 101-102-38, "D. Gordon to J.L. Ilsley re inflation and consumer durable goods," 5 March 1945.

¹⁷¹ LAC, RG19, vol. 3993, file W-2-5, "Memo from D. Gordon to W.C. Clark re the WPTB and decontrol procedures now and postwar," 17 January 1944.

wage freeze were likely to explode once hostilities ended. Anger at the wage freeze had already led labour to instigate a strike wave in 1943. Once the war ended and Canadian soldiers were no longer in danger, any lingering feeling that workers should keep their self-interest in check for the sake of the 'boys' or the Allied cause would vanish. A series of postwar strikes aiming to break the wage freeze were to be expected. And as Gordon argued in 1943, a capitulation on the wage front would undermine the entire stabilization program. Like labour, farmers' calls for higher agricultural prices had been deflected by invoking the imperatives of war. Peace and the government's determination to remove agricultural subsidies gradually would end this uneasy stalemate and invite louder protests by farmers against price controls. Given that food prices played a significant role in pushing up the cost of living, assenting to the farmers' request would then place additional burdens on the wage ceiling, potentially unleashing evermore inflationary pressures. Public impatience with the stabilization program was also expected to grow when hostilities ended. Canadians would want to get rid of rationing, product simplifications, import limitations, and high income taxes. Unscrupulous individuals would be increasingly drawn to speculation and black markets. Though not a grave threat to the stabilization programs, these public attitudes and behaviours added to the inflationary problems Gordon and the WPTB would have to address in the post-hostilities phase of reconversion.

Despite these various complications and contingencies, Gordon hoped to follow a consistent stabilization and decontrol plan during the transition.¹⁷² In accordance with the objectives of reconstruction policy, Gordon's scheme aimed to facilitate a reconversion to

¹⁷² LAC, RG19, vol. 3993, file W-2-5, "Memo from D. Gordon to W.C. Clark re the WPTB and decontrol procedures now and postwar," 17 January 1944.

a prosperous market economy and stable economic base, while protecting Canadians' standard of living. The first phase of Gordon's plan saw the WPTB assisting DMS in removing impediments to the production of civilian goods. However, Gordon believed that the WPTB should continue to regulate regional distributions until supply scarcities eased. He also foresaw a need to retain strict ceilings on the price of raw materials and to extend simplification and standardization programs to newly available civilian goods. Next, Gordon believed that import subsidies and restrictions should be gradually lifted, but that export controls should be retained to prevent manufacturers from selling their goods in the United States and worsening the supply/demand gap for consumer products in Canada. Thirdly, a relaxation of the price ceiling on goods not found in the cost of living index should be allowed. Ceilings on those goods included in the cost of living index, however, were to be relaxed or removed last. Similarly, subsidies on agricultural goods were to be kept in place until inflation pressures subsided. As to the wage ceiling, Gordon held that the freeze should be maintained until the WPTB felt confident that industry could absorb the higher production costs without raising prices. Above all, he observed, the government should forbid "piece-meal amendments" to the wage ceiling. Allowing such amendments would create "misunderstandings and frictions" between government and industry, goad unions into launching a second strike wave to push wages higher, and damage the course of reconstruction.¹⁷³

Stabilization was seen as a vital component of reconstruction, one that would protect the economic base and Canada's organizing ideologies by curtailing and confronting inflationary forces that threatened to drag the economy into recession, erode

¹⁷³ LAC, RG19, series E-1(d), vol. 2735, "D. Gordon to deputy minister of labour, A. MacNamara," 19 June 1945.

Canadians' incomes and standard of living, and confirm the public's misgivings about the capitalist system and an abandonment of economic planning. While reconversion and stabilization might occasionally work at cross-purposes, the champions of both policies, Howe and Gordon, were in agreement about the fundamentals: reconversion would secure the economic base and reestablish Canadian liberal-democratic capitalism, and stabilization would ensure that this happened smoothly and with minimal harm to the personal economic security that Canadians had gained under the planned wartime economy.

Reform

Officials from the department of finance were adamant that reconstruction should involve more than a short-term stabilization measures and a reconversion of the Canadian economy.¹⁷⁴ For economists such as W.A. Mackintosh and R.B. Bryce, reconstruction needed to include a package of fiscal reforms that would allow the federal government to redress structural flaws in the market economy and business cycle, reducing Canada's vulnerability to perceived postwar economic threats. Absent these vulnerability-reducing reforms, the finance department economists argued, the market economy would -whether immediately or after a brief period of prosperity- tumble back into recession or depression. Were this to happen, the economic base would be severely damaged, and Canadians would again face the prospect of heavy unemployment, diminished standards of living, and a central government lacking the constitutional or fiscal powers necessary

¹⁷⁴ LAC, RG19, vol. 3976, file E-3-0, "Memoranda by R.B. Bryce and D.A. Skelton re postwar economic policy," 13 April 1943.

to solve these problems.¹⁷⁵ Such a scenario would likely move Canadians to desert liberal-democratic capitalism in favour of socialist or statist ideologies. The reformers were thus convinced that a degree of government intervention was required to secure the postwar economic base, protect Canadian capitalism, and convince the public that their well-being was not tied to a planned economy.¹⁷⁶

Guiding the reformers and their policy proposals were the theories of Keynes.¹⁷⁷ Two broad policy prescriptions flowed from Keynesian economic theories. First, governments had to craft fiscal policies that would balance the excesses of the business cycle. Specifically, when the business cycle was prospering, government should raise taxes to slow spending. When, on the other hand, the business cycle was turning downward, governments should lower taxes to spur spending. This idea reflected the Keynesian notion that supply surpluses could be mitigated if demand booms that accompanied prosperous times were spread more evenly over the business cycle. Stated differently, higher taxes could create a swell of delayed demand that would be unleashed --by lowering taxes-- when economic growth began to decline. Known as counter-cyclical budgeting, this policy was informed by the assumption that government had to influence demand levels because private enterprise was naturally inclined to produce and invest based on existing, rather than future, economic conditions. To be precise, when the economy was prosperous, firms would be prepared to produce an abundance of goods and make capital investments. But when the economy stagnated, firms would be determined to cut production, focus on selling their leftover stock, and avoid making new

¹⁷⁵ Canada, Dominion-Provincial Conference on Reconstruction, *Proposals of the Government of Canada* (Ottawa, 1945), 5-8.

¹⁷⁶ Owsram, *Generation*, 307.

¹⁷⁷ Dillard, *The Economics of John Maynard Keynes*.

capital investments since their sales were down. Thus, the ingrained prudence of the private sector worsened the peaks and valleys of the business cycle. Instead of making new investments and boosting overall demand when the economy cooled, firms contributed to the demand slump by cancelling investments and cutting employees and wages. Similarly, rather than investing and hiring when overall demand was weak, firms elongated demand slumps because they preferred to wait until economic conditions improved before expanding or taking on new workers. By budgeting against current economic trends, Keynes believed that governments could nudge firms to invest and hire against existing conditions, and in so doing calm the fluctuations of the business cycle.

Keynesianism's second policy prescription was that governments should initiate public spending and income distribution programs to maintain a high level of aggregate demand. This was deemed critical to the health and stability of a market economy for two reasons. First, even when market economies were prosperous, capitalism produced a suboptimal level of aggregate demand. Savings, caution, and a variety of other factors kept overall demand below a capitalist economy's full potential. As a result of this suboptimal level of demand, capitalism was incapable of providing full employment. Regardless of how strong a market economy was, there would always be some unemployment under pure capitalism. Unemployment then compounded the suboptimal level of demand because those without a regular wage were a source of unrealized spending. As a result, Keynesian theory argued that government should fill the demand gaps left by the market. Public investments would absorb the unemployed and create conditions for full employment, while social assistance programs would increase the purchasing power of the temporarily unemployed, elderly, poor, and others facing

financial hardships. Second, public investments and social assistance measures were be doubly important when an economy was stagnating or headed toward recession/depression. As noted above, Keynesianism held that capitalist economies were ill-equipped to free themselves from recession/depression/stagnation because unemployment and the practices of firms prevented an increase in aggregate demand. In times of stagnation or recession, government could use public investment and social assistance to raise aggregate demand, ignite economic growth, and push the private sector to rehire workers and make capital investments of their own, all of which confronted the threats to the economic base. In short, Keynesianism posited that governments could, and should, play a vital role in improving the functionality of the capitalist system. Whether through light interventions in prosperous periods or heavy expenditures in times of recession, government could guarantee that the level of aggregate demand was sufficient to ensure full employment, economic growth, and prosperity.

Armed with these Keynesian theories,¹⁷⁸ officials from the department of finance proposed a series of vulnerability-reducing and threat-confrontation reform policies to accompany reconversion and stabilization. Keynesian bureaucrats argued that Ottawa should prepare a postwar public investments scheme.¹⁷⁹ They argued that the federal government should use social assistance programs to bolster the public's purchasing power before the war ended, so that the aggregate demand of the Canadian economy could be kept high during the reconversion period.¹⁸⁰ In line with Keynes' analysis of

¹⁷⁸ The relationship between Keynesian theory and the reformers' policy prescriptions is discussed in Owram, *Generation*, 307-08

¹⁷⁹ LAC, RG19, vol. 3976, file E-3-0, "R.B. Bryce memoranda on constitutional problems and postwar economic policy," 21 April 1943; Canada, Dominion-Provincial Conference on Reconstruction, *Proposals of the Government of Canada* (Ottawa, 1945), 7.

¹⁸⁰ Granatstein, *Canada's War*, 267-268; Keshen, *Saints*, 260; Mackintosh, "White Paper," 11.

capitalism's structural flaws, the reformers were doubtful that the reconverting economy could maintain a sufficient level of aggregate demand without these initiatives.¹⁸¹

Moreover, in the event that reconversion did manage to keep unemployment down and demand up, public investments and social assistance programs would be needed to guard against future, post-reconversion downturns and recessions.

The reformers also sought to make counter-cyclical budgeting the foundation of postwar fiscal policy.¹⁸² From their perspective, the Great Depression had shown the impotence of Gladstonian economics and the illogic of avoiding government intervention in the economy as a matter of principle. The war, on the other hand, had shown the positive impact that government expenditures could have on stagnant economies. Hence, rather than assuming that a return to liberal-democratic capitalism implied a resumption of Gladstonian austerity, the reformers worked to convince Cabinet that a market economy could co-exist with, and be improved by, counter-cyclical fiscal policies.¹⁸³ Adopting counter-cyclical would not undermine the market or involve direct economic planning. Instead, it would merely give Ottawa the ability to set favourable conditions for stable market growth and lasting capitalist prosperity, a longstanding practice of Tory capitalism.

Social assistance programs were popular with the Liberal government.¹⁸⁴ Insofar as most economists and politicians worried that the end of hostilities would bring high levels of unemployment, members of the Liberal caucus were open to policies that

¹⁸¹ LAC, RG19, vol. 3976, file E-3-0, "Postwar economic policy memoranda prepared for EAC by R.B. Bryce and D.A. Skelton," 13 April 1943.

¹⁸² Canada, Dominion-Provincial Conference on Reconstruction, *Proposals of the Government of Canada* (Ottawa, 1945), 8.

¹⁸³ *ibid.*, 48.

¹⁸⁴ Granatstein, *Canada's War*, 267-271.

promised to safeguard Canadians' personal economic security after the war.¹⁸⁵ In addition, social assistance policies fit well with the Liberals' partisan campaign against the CCF.¹⁸⁶ Several Liberal MPs, furthermore, felt morally obliged to expand Canada's social assistance programs.¹⁸⁷ Thanks to this interconnection between social assistance programs, ethical duties, and Liberal politics, in 1944 the King government launched several social welfare initiatives, including war service grants and family allowances. As sought by the reformers, these welfare initiatives would increase purchasing power once the war ended.¹⁸⁸ All that remained to be done, it seemed, was to convert the King Cabinet to the idea of counter-cyclical budgeting and public investments.

Like the proponents of reconversion and stabilization, however, the reformers soon discovered that fully attaining their goals would be difficult. Reformers would first have to overcome a number of obstacles to make public investments and counter-cyclical fiscal policies a reality. For large-scale public investments and counter-cyclical budgeting to be viable, the federal government would need to negotiate a permanent centralization of tax powers with the provinces.¹⁸⁹ If the provinces refused to permanently transfer their tax powers to Ottawa, the federal government would be unable to pursue counter-cyclical budgeting, since the policy depended on uniform, nation-wide tax adjustments to steady the business cycle.¹⁹⁰ Ottawa would also require centralized taxation to fund public

¹⁸⁵ *ibid.*, 275-278.

¹⁸⁶ *Proposals of the Government of Canada*, 6, 27-28; LAC, RG28, vol. 138, file 3-E1-1, "Wartime Information Board postwar planning information: reconstruction planning," 30 May 1944.

¹⁸⁷ Granatstein, *Canada's War*, 266.

¹⁸⁸ LAC, RG19, vol. 304, file 101-53-114, "R.B. Bryce working paper on children's allowances," 12 January 1944; Peter Neary, "Introduction," in Peter Neary and J.L. Granatstein, eds. *The Veterans Charter and Post-World War II Canada* (Montreal: McGill-Queen's University Press, 1998), 11; Guest, *Social Security*, 131.

¹⁸⁹ LAC, RG28, series A, vol. 138, "EAC paper on constitutional problems of Dominion postwar policy," 27 April 1943.

¹⁹⁰ *Proposals of the Government of Canada*, 47-52.

investments; tax jurisdictions granted the federal government by the BNA Act would be unable to generate the level of expenditure the reformers' investment plans envisioned.¹⁹¹ Another obstacle to the reformers' was also related to intra-governmental relations. For public investments to lift the level of aggregated demand at opportune moments in the business cycle, the timing and planning of the investments would have to be well coordinated among the federal, provincial, and municipal governments.¹⁹² Because each level of government was responsible for public investments in its jurisdiction, reformers worried that an uncoordinated approach might result in inappropriately scheduled injections of demand, which could worsen rather than correct the market's inherent flaws.¹⁹³ At issue was whether provincial governments would relinquish key powers to fund untested economic theories and fiscal policies.

Disagreements between the reformers and the proponents of stabilization and reconversion were the third obstacle that could obstruct public investments and counter-cyclical budgeting. Contrary to the claims of the Keynesian reformers, Gordon and the WPTB assumed that the immediate postwar period would see an overabundance of aggregate demand.¹⁹⁴ Consequently, the WPTB looked nervously at efforts to increase demand during the transition from a wartime to peace economy.¹⁹⁵ Large public investments, moreover, might exacerbate supply shortages and push prices higher during the transition period.¹⁹⁶ Though he may have supported the introduction of Keynesian policies once inflationary pressures subsided, Gordon's concerns about excited spending,

¹⁹¹ *ibid.*, 47; Granatstein, *Canada's War*, 273.

¹⁹² *Proposals of the Government of Canada*, 26.

¹⁹³ *ibid.*, 21-27.

¹⁹⁴ Schull, *Gordon*, 94-97.

¹⁹⁵ LAC, RG19, vol. 388, file 101-102-38, "J.L. Ilsley to D. Gordon," 29 March 1945.

¹⁹⁶ LAC, RG19, vol. 388, file 101-102-38, "Constitutional and economic problems of concern to the Wartime Prices and Trade Board during the transition from war to peace," 15 June 1945.

pent-up demand, and the risks associated with unchecked purchasing power placed him at odds with the reformers' prescriptions as the war neared its end.¹⁹⁷

Howe's misgivings about Keynesian policies were more pronounced than Gordon's. As the architect of reconversion, Howe was convinced that the responsibility for postwar employment lay with the private sector, not government investment projects.¹⁹⁸ While he was willing to entertain the idea that government should intervene in cases of clear market failure or mass unemployment, Howe was wary of presenting public investments as a core reconstruction policy. In his thinking, private enterprise should first be given the opportunity to demonstrate its capacity to manage a prosperous and stable civilian economy.¹⁹⁹ This conviction also prompted Howe to qualify his endorsement of counter-cyclical budgeting.²⁰⁰ Before granting the federal government the responsibility to fix the business cycle, he asserted, the private sector deserved an opportunity to demonstrate that the market could cope with downturns and escape recessions alone.²⁰¹ Next, Howe was especially critical of reformers' schemes to boost aggregate demand with social assistance programs.²⁰² Reports that Howe read before the end of the war indicated that there would be a profusion, not a lack, of demand and purchasing power in peacetime.²⁰³ Keynesian calls for an injection of additional demand and purchasing power were seen as unnecessary and misguided. Finally, Howe disagreed with the reformers' basic premises. For Howe reconstruction meant a reconversion to

¹⁹⁷ See chapter 3.

¹⁹⁸ Bothwell and Kilbourn, *Howe*, 181; McInnis, *Confrontation*, 49.

¹⁹⁹ Bothwell and Kilbourn, *Howe*, 181-183.

²⁰⁰ Slater, *War, Finance and Reconstruction*, 233.

²⁰¹ Granatstein, *Canada's War*, 273.

²⁰² *ibid.*,

²⁰³ Bothwell and Kilbourn, *Howe*, 182-183, 192.

capitalism, not the retention of a mixed or partially-planned economy.²⁰⁴ Well-intentioned though the reformers were, their policies represented at best a dilution of capitalism, and at worst an initial step towards the gradual ascendancy of socialism, one of the very outcomes reconstruction was designed to prevent.²⁰⁵

To advocates of reformist policies, reconstruction would fail to achieve its ends unless decisionmakers accepted that the market economy was incapable of operating effectively on its own. If the survival of the capitalist system and protection of the economic base necessitated a reconsideration of the relationship between government and the private sector, so be it. From the reformers' vantage point, it was far better to secure a stable economic base and allow Canada's organizing ideologies to evolve than to risk their complete uprooting.

Conclusion

In summary, the securitization of Canada's economic base and organizing ideologies during the Second World War was critical in the crafting of Canadian reconstruction policy. The hardships Canadians faced after the First World War and during the Great Depression had led the public to question the value and legitimacy of the market economy. When war production, a planned economy, and expanded executive powers proved decisive in ending the depression and improving Canadians' standard of living, a sizable portion of the public were willing to entertain the election of a socialist government that would retain the structures of wartime economic management in peacetime. To counter this threat to Canadian liberal-democratic capitalism,

²⁰⁴ Bothwell and Kilbourn, *Howe*, 181; Owram, *Generation*, 302-303; Slater, *War, Finance and Reconstruction*, 234.

²⁰⁵ Bothwell and Kilbourn, *Howe*, 204-205.

decisionmakers in Ottawa devised reconstruction policies that aimed to reestablish a prosperous and stable liberal-democratic regime while protecting Canadians' newfound sense of personal economic security.

Factors that threatened to undermine Canadians' faith in liberal-democratic capitalism were the same that endangered Canada's postwar economic base. Following a brief period of prosperity, postwar inflation threatened to erode national income and wealth and give rise of massive unemployment. A postwar recession or depression sparked by inflation, furthermore, threatened to greatly diminish production levels over the short and long-term.

Three types of reconstruction policies were proposed to guard the postwar economic base and defend Canada's organizing ideologies: reconversion, stabilization, and reform. While all three aimed at the same basic goals, aspects of their means, strategies, and acceptable ends were at odds. As the war neared its end, inconsistencies between the three approaches to reconstruction would have to be addressed. An account of how these three approaches were reconciled is provided the following chapter.

Chapter 3

Settling the Reconstruction Debate, January 1943 - August 1945

Canadian reconstruction policy served to protect Canada's economic base and secure a restoration of liberal-democratic capitalism in the aftermath of the Second World War. To ensure the security of Canada's organizing ideologies once hostilities ended, decisionmakers understood that the reestablished market economy would need to be prosperous, stable, and able employ nearly all Canadians wanting to work. If postwar capitalism failed on any these points, Canadians' personal economic security would be imperiled, the public's fragile acceptance of the market would be shaken, and voters would likely elect parties promising a return to economic planning, illiberal controls, and authoritarian executive powers. To guarantee a prosperous and stable postwar economy, decisionmakers realized that Canada's economic base would need to be defended against a series of economic threats, including inflation and recession. Three types of reconstruction policies were contemplated to both protect Canada's economic base and restore a stable liberal-democratic market economy after the war. Reconversion aimed to gradually dismantle war production, decontrol industries, and propel a resumption of civilian manufacturing. Stabilization policies were to keep inflation in check during reconversion. Third, reform measures were proposed to address an expected surge in unemployment immediately following the war, and to increase the level of aggregate demand and correct flaws in the business cycle to guarantee the long-term health of the Canadian economy.

Though technically compatible, reconversion and reformist policies found themselves at odds as the Second World War came to a close. Proponents of strict reconversion believed that reformist policies were unnecessary, possibly counterproductive to the goals of reconversion, and contrary to the spirit of a free market. Reformists, on the other hand, worried that strict reconversion would leave the market economy vulnerable to inherent structural flaws and likely drive the country into yet another recession or depression. Caught in the middle were stabilization policies. While reformers and reconversion advocates recognized the importance of countering inflation, the managers of the stabilization program saw that both reform and reconversion policies strengthened inflationary pressures. The overseers of the stabilization program worked to accommodate reform and reconversion policies without permitting inflation to run rampant. In the end, powerful personalities, turf battles,¹ the timing of peace, and constitutional impediments allowed reconversion and stabilization to dominate postwar Canadian reconstruction policy. While several reform policies were introduced in early 1944 and partisan politics ensured that the rhetoric of reform permeated reconstruction discourse up the end of the war, by the summer of 1944 reconstruction policy was largely driven by reconversion and stabilization policies.

This chapter examines the setting of Canadian reconstruction policy between 1943-1945. The chapter details the interaction and debates between reform, reconversion, and stabilization policies between 1943-1945, and explains how and why reform policies became an increasingly marginalized aspect of reconstruction when the Second World War ended in the summer of 1945.

¹ David W. Slater, *War, Finance and Reconstruction: The Role of Canada's Department of Finance, 1939-1946* (Ottawa: Department of Finance, 1995), 18-23.

3.1) The Reformist Push, 1943 – 1944

Thinking about postwar reconstruction in Canada began in late 1939, with the creation of a Cabinet committee on demobilization and reestablishment.² Chaired by the minister of pensions and national health, Ian Mackenzie, the demobilization and reestablishment committee was tasked with coordinating all matters related to the reintegration of soldiers into civilian life. In light of the difficulties that veterans had faced in the aftermath of the First World War, the government of prime minister William Lyon Mackenzie King thought it wise to start preparations immediately for an efficient repatriation of Canadian soldiers.³ Of particular importance to the King government and the public alike was that returning soldiers should be properly compensated for their service, and that demobilization should be fair, rapid, and orderly. Because veterans of the First World War had been a source of social unrest and radicalism in 1918-19, the King government hoped that a generous and accommodating reintegration would prevent similar tension once the Second World War ended.⁴

In September 1941 the advisory committee on reconstruction chaired by F. Cyril James was formed. Originally mandated to “report to the Cabinet Committee on Demobilization and Re-establishment in the economic and social implications of the transition of the Canadian economy from war to peace,”⁵ the James committee completed a series of studies on postwar planning meant to inform rather than shape federal

² A review of early reconstruction planning, including the activities of the committee on demobilization and reestablishment, is available in Canada, Dominion Bureau of Statistics, *Canada Year Book 1943-44* (Ottawa: King's Printer, 1944), chapter 11.

³ Jeffery A. Keshen, *Saints, Sinners, and Soldiers* (Toronto: University of British Columbia Press, 2004), 258-262.

⁴ *ibid.*, 271-279.

⁵ Library and Archives Canada (LAC), RG19, vol. 3977, file E-3-5, “Postwar planning in Canada,” 30 July 1943.

reconstruction policy. Composed of academics and business leaders interested in Keynesian economics, the alleviation of poverty, and a betterment of Canadians' standard of living, the James committee proposed in its 1942 interim report several postwar reforms, including the establishment of new social welfare programs, the creation of a Construction Reserve Commission to coordinate public works, and the formation of a ministry of economic planning to direct reconstruction policy and maintain certain centralized economic controls in peacetime.⁶ Pessimistic in outlook, the James committee argued that these policies were necessary because the postwar economic environment would be plagued by high unemployment, inadequate levels of aggregate demand, and public discontent.⁷ In fact, the James committee was convinced that the postwar economic situation would be so troubled that a return to the prewar model of capitalism and limited government intervention was inconceivable. As an especially zealous James committee memorandum claimed, "Even though, as individuals, we may regret the passing of the older order of free trade, competition and capitalism, the democratic-capitalist order of society suggests that the attainment of reasonable economic security for the average individual will demand a large measure of coordination and government control."⁸

With the exception of Mackenzie, to whom the James reported, the King Cabinet paid little heed to the proposals of the advisory committee on reconstruction.⁹ Prime minister King was too cautious to embrace James' recommendations wholeheartedly. His

⁶ LAC, RG2, series 18, vol. 78, file E-20, "Excerpt from interim report of committee on reconstruction," undated; Doug Owrham, *The Government Generation: Canadian Intellectuals and the State, 1900-1945* (Toronto: University of Toronto Press, 1986), 282-284.

⁷ J.L. Granatstein, *Canada's War: The Politics of the Mackenzie King Government, 1939-1945* (Toronto: University of Toronto Press, 1975), 256.

⁸ Owrham, *Generation*, 282.

⁹ Slater, *War, Finance and Reconstruction*, 185.

minister of finance, J.L. Ilesley, recoiled at the implied costs of James' proposals.¹⁰ Government economists, meanwhile, criticized the committee's priorities. Though they shared some of its theoretical viewpoints and presuppositions, senior officials from the department of finance thought that the James committee miscast the relationship between social security, government intervention, and a market-based economy.¹¹ While the James committee seemed to suggest that social welfare programs and the pursuit of personal economic security should take precedence in reconstruction planning, finance department bureaucrats understood that both a vibrant market economy and a stable economic base were essential in order to be able to afford welfare initiatives and protect Canadians' standard of living. Hence, the finance officials held that the reestablishment of a prosperous and well-balanced capitalist system should be at the forefront of reconstruction policy. While their commitment to a market-based economy was qualified, the senior economists denied that Canadian capitalism was an anachronism.¹²

Senior government economists were also displeased with the James committee's influence over reconstruction policy. In September 1939 the planning of Canada's wartime economic policy had been delegated to the advisory committee on economic policy, better known by its alternate title, the economic advisory committee (EAC).¹³ Chaired by W.C. Clark and made up of other deputy ministers and high ranking officials, such as the governor of the Bank of Canada, Graham Towers, and later the chairman of the Wartime Prices and Trade Board (WPTB), Donald Gordon, the EAC had been the driving force behind the government's intricate taxation and stabilization programs.

¹⁰ Owram, *Generation*, 282.

¹¹ LAC, RG19, vol. 3977, file E-3-5, "EAC report on advisory committee on reconstruction report," 30 November 1943.

¹² *ibid.*

¹³ Slater, *War, Finance and Reconstruction*, 97-100.

Given that reconstruction would be as complex as the formulation of the government's wartime fiscal policies had been, members of the EAC were convinced that their mandate should be expanded to include reconstruction planning. Indeed, for Clark the James committee's interim report showed that only the EAC could be trusted to formulate reconstruction policy prudently. After the James committee released its interim report in the autumn of 1942, Clark petitioned Cabinet to transfer reconstruction planning to the EAC.¹⁴

Another factor -perhaps the most important- in the Cabinet's and the EAC's rejection of the James committee recommendations was timing. James' 1942 interim report coincided with Canadians' turn towards socialist alternatives and the rise in public support for the CCF.¹⁵ As they read James' recommendations, decisionmakers were in the midst of securitizing the protection of Canada's organizing ideologies. This securitization of Canada's organizing ideologies had two results. First, the meaning of reconstruction changed. Reconstruction was transformed from a study of demobilization and social security to a set of policies designed to reestablish a prosperous postwar economic base and stable liberal-democratic capitalist regime.¹⁶ No longer a set of measures to simply ease the transition from war to peace, reconstruction became a matter of national security. Its object would now be to confront, and reduce, the state's vulnerability to threats aimed at the Canada's economic base and organizing ideologies. Next, this new conception of reconstruction meant that reconstruction planning became a

¹⁴ LAC, RG19, series 18, vol. 78, file E-20, "EAC memoranda to A.D.P. Heeney re organization of postwar planning," 9 November 1942.

¹⁵ Granatstein, *Canada's War*, 264-265.

¹⁶ Reginald Whitaker, *The Government Party: Organizing and Financing the Liberal Party of Canada, 1930-1958* (Toronto: University of Toronto Press, 1977), 150.

critical issue for the King government.¹⁷ As an issue of national security, reconstruction needed to be addressed by the highest levels of the federal executive and bureaucracy. Simply put, reconstruction's new status and priority guaranteed that responsibility for postwar planning could no longer lie with a secondary body such as the James committee. Instead, postwar planning would have to be transferred to proven policymakers who appreciated the gravity of reconstruction for Canadian national security.

Howe might have been a natural choice to direct reconstruction planning at this juncture. His department of munitions and supply (DMS), after all, would play a vital part in returning Canada to a market-based economy. But Howe and DMS were preoccupied with their wartime duties. The major Allied offences in Europe had yet to begin and the stresses on Canadian war production were likely to mount when Commonwealth and American forces seriously engaged Italian and German units on the continent. Consequently, Cabinet opted to accept Clark's request that responsibility for reconstruction planning be given to the EAC. The EAC had provided valuable advice during the first four years of war and Cabinet was cautiously optimistic that it would continue to do so as peace approached and reconstruction commenced.¹⁸

On 23 January 1943 Cabinet passed order-in-council P.C. 608, giving the EAC "responsibility for advising the government in respect of such postwar planning by departments and agencies of government."¹⁹ Those tasked to study specific reconstruction problems for the EAC were W.A. Mackintosh, R.B. Bryce, Alex Skelton,

¹⁷ Slater, *War, Finance and Reconstruction*, 187.

¹⁸ Owram, *Generation*, 302.

¹⁹ LAC, RG2, series 18, vol. 78, file E-20, "Order-in-council 608," 23 January 1943.

and other economists.²⁰ All committed Keynesian reformers, Mackintosh, Bryce, and Skelton hoped that the EAC would serve as a vehicle to steer the government towards counter-cyclical budgeting and aggregate demand boosting initiatives. They had reason to be hopeful that their vision of a market economy overseen by a watchful government would come to fruition. In early 1943 most observers were certain that the end of the war would give rise to critical economic threats, such as mass unemployment and recession, to Canada's economic base. Reformist policies were specifically designed to address these calamities. The socialist surge was also forcing Cabinet to reexamine their biases about the relationship between government and the private sector.²¹ If ministers were convinced that a mixed economy was the only way to save some form of capitalism from the socialist wave, then Keynesianism would surely be in the ascendant. Above all, the reformers were certain that a reconstituted market economy would collapse unless their corrective policies were adopted.²² This assertion alone promised to break any opposition to Keynesian reform. As the EAC prepared to tackle reconstruction policy in the spring of 1943, reformers were confident that their prescriptions would sway Cabinet.

In the same month that the EAC was given primary responsibility for reconstruction planning, the James committee produced a comprehensive study of social welfare policy, the *Report on Social Security for Canada*.²³ Prepared by the James committee's chief researcher, Leonard Marsh, the report attracted a fair amount of publicity when it was presented to Parliament in March 1943. In line with past James

²⁰ Slater, *War, Finance and Reconstruction*, 188.

²¹ Alvin Finkel, "Origins of the Welfare State in Canada," in Leo Panitch, ed. *The Canadian State: Political Economy and Political Power* (Toronto: University of Toronto Press, 1977), 361-360; Robert M. Campbell, *Grand Illusions: The Politics of the Keynesian Experience in Canada, 1945-1975* (Peterborough: Broadview, 1987), 38.

²² See chapter 2.

²³ Canada, Advisory Committee on Reconstruction, *Report on Social Security for Canada* (Ottawa: King's Printer, 1943).

committee recommendations, the Marsh report proposed that postwar reconstruction should include social welfare policies to improve the lives of poor and unemployed Canadians. Among the initiatives that Marsh forwarded were minimum subsistence budgets for families, training and job placement programs, a broadened unemployment insurance scheme, disability insurance, children's allowances, and universal health insurance. The expected cost of these policies was \$500 million a year, which represented approximately 10-12.5 percent of Canadian national income.²⁴ Marsh further recognized that the expenditures associated with these welfare programs would be unsustainable if the postwar economy faltered. Again in keeping with the pessimistic assumptions of the James committee, Marsh argued that, in order to prevent the occurrence of large-scale unemployment and recession in peacetime, the federal government would need to undertake a massive public investment program. Totalling \$1 billion in the first year of peace alone, Marsh's public investment proposal would involve "redeveloping blighted areas of towns and cities, extending rural electrification systems, conserving natural resources of forest, mines, water, and soil, and a host of other socially useful projects."²⁵ A collage of Keynesian economics and moral crusading, the Marsh Report seemed poised to set the scope and tone of reconstruction.

Unfortunately for Marsh, the King Cabinet was unimpressed. As with the James committee's previous studies, the Marsh report was lambasted for its heavy financial implications and profound skepticism towards the private sector's ability to address unemployment.²⁶ Two days after the Marsh report was presented to Parliament, Cabinet

²⁴ Dennis Guest, *The Emergence of Social Security in Canada* (Vancouver: University of British Columbia Press, 1980), 115.

²⁵ *ibid.*, 114.

²⁶ Slater, *War, Finance and Reconstruction*, 186.

issued a statement clarifying that the findings of the James committee were not government policy.²⁷ As Slater observes, Marsh “appears to have suffered from the fact that this was the period in which the Liberal government and its public service mandarins were busy separating socialists from their policies.”²⁸ While Marsh’s prescriptions might have had popular appeal and some practical value, they ran counter to the King Cabinet’s determination to safeguard Canada’s organizing ideologies. Though Marsh did not aim to uproot Canadian capitalism, his policies could serve as a stepping stone for those who were seeking that end. For the remainder of the war, the advisory committee on reconstruction was marginalized.

The Marsh report’s impact on the EAC, though, was more nuanced. On the one hand, as with the James committee’s interim report, the EAC was critical of the primacy Marsh gave to social security policies. However noble the aim of creating a more egalitarian society, most EAC members understood that reconstruction was first and foremost about defending Canada’s economic base and securing the return of a liberal-democratic capitalist regime.²⁹ On the other hand, the EAC’s Keynesian reformers largely agreed with Marsh’s analysis of the relationship between public investments, income redistribution, aggregate demand, and employment.³⁰ Though their moral impulse was weaker than Marsh’s and their appreciation of the market’s strengths greater than the James committee’s, the EAC reformers were drawn to the Marsh report’s advocacy of large public investments and welfare programs. Like Marsh, the reformers were

²⁷ Granatstein, *Canada’s War*, 263.

²⁸ Slater, *War, Finance and Reconstruction*, 186.

²⁹ Owsram, *Generation*, 302-303.

³⁰ LAC, RG19, vol. 3976, file E-3-0, “Memoranda by R.B. Bryce and D.A. Skelton re postwar economic policy,” 13 April 1943; LAC, RG19, vol. 3977, file E-3-5, “EAC report on advisory committee on reconstruction report,” 30 November 1943.

convinced that government would need to increase aggregated demand to combat unemployment and ensure prosperity at war's end. This Keynesian kinship led the EAC to back Marsh's public investment program. While Cabinet publicly distanced itself from the Marsh report, the EAC was echoing those aspects of the *Report on Social Security* that accorded with their efforts to correct capitalism's structural flaws.

In late March 1943, Mackintosh proposed the creation of a National Development Board to plan and coordinate a Marsh-style postwar public investment scheme.³¹ To ensure that the National Development Board operated effectively and with full information about all the government's reconstruction measures, Mackintosh argued that the reconversion and reinvestment procedures of DMS should be channeled through the National Development Board or EAC.³² Mackintosh's proposals were submitted to Cabinet for approval in April 1943.

Shortly before Cabinet debated the National Development Board, Bryce and Skelton produced their first study of reconstruction policy.³³ Their study began by identifying the dangers of postwar inflation. They held that the shortages of consumer goods would persist for at least two years and that government would need to give private enterprise "incentives and assistance" to reconvert their production facilities. Helping private enterprise reconvert was deemed vital for the resumption of civilian manufacturing and the elimination of these shortages. Stabilization measures, such as price controls and rationing, would also have to be kept in place while shortages persisted.

³¹ Slater, *War, Finance and Reconstruction*, 190-191.

³² Owram, *Generation*, 305.

³³ LAC, RG19, vol. 3976, file E-3-0, "Memoranda by R.B. Bryce and D.A. Skelton: Postwar economic policy," 13 April 1943.

The bulk of the Bryce/Skelton paper, however, was devoted to public investment and unemployment policy. It was argued that demobilization and reconversion would result in a labour surplus that “even in the most favourable circumstances” the private sector could not be expected to absorb. In addition, the paper observed that “there will be a demand for a number of socially useful projects of a kind which private enterprise cannot undertake.” As a result, the study claimed that, “To take up the slack of private employment where and when necessary, and to meet various community needs, the Government must have a broad public works programme prepared.” Because Bryce and Skelton acknowledged that public investments might exacerbate inflationary pressures, and that unemployment would vary across various regions and sectors, the federal government would be required to carefully plan and coordinate the public investments “before intelligent decisions on timing and order of preference can be made.” Given the date that their study was completed, it is safe to assume that Bryce and Skelton were hoping that Mackintosh’s National Development Board would be charged with this planning and coordination function –were Cabinet to approve its creation. Alongside public investments, Bryce and Skelton argued that “a general and insistent public demand for government measures to establish some degree of economic security for the individual” required Ottawa to contemplate an expansion of Canada’s social welfare benefits. Unlike the comprehensive social security program envisioned by Marsh, however, Bryce and Skelton held that the federal government should concentrate on social assistance measures that would alleviate unemployment. Finally, the Bryce/Skelton study explored “what constitutional changes will be necessary to put the Dominion in a position carry out” public investments and unemployment assistance after the war. The

key constitutional amendment required, they asserted, was an “exclusive Dominion jurisdiction in income tax, corporation tax, and succession duty fields.”

Cabinet dealt a blow to the EAC’s endeavours on 15 April 1943, when Howe convinced a majority of his fellow ministers that the National Development Board was bad policy.³⁴ In spite of the general consensus that the end of war would inevitably bring an economic downturn and heavy unemployment, Howe was beginning to believe that peace would bring a period of economic growth -indeed perhaps too much, and too rapid growth. In truth, Howe was sure that the main obstacle to postwar prosperity would be misdirected government interventions in the economy and dealings of private enterprise. Howe was also sure that the reformers’ fear of a postwar labour surplus was overstated. While he admitted that there might be a brief increase in unemployment during the initial months of peace and demobilization, the demand for consumer goods and rapid industrial reconversion would allow private enterprise to employ most people looking for work. Next, Howe objected to Mackintosh’s notion that the National Development Board or EAC should vet the reconstruction activities of DMS. Though the EAC deserved credit for the government’s taxation and stabilization programs, DMS was responsible for the equally impressive success of Canadian industrial conversion, war production, and manufacturing output. When the time came to begin planning reconversion and capital investment policy, DMS should again be trusted to chart its own course in conjunction with the private sector.³⁵ The reformers’ Keynesian formulations were fine in theory, but assessments of Canada’s postwar industrial capabilities, shortfalls, and needs should be left to those who knew how business worked in practice. Howe and his department would

³⁴ Owram, *Generation*, 305-306.

³⁵ Robert Bothwell, Ian Drummond and John English, *Canada, 1900-1945* (Toronto: University of Toronto Press, 1987), 390-392.

determine whether or when private investments were insufficient and in need of public assistance.

Howe's rebuke humbled the reformers.³⁶ Though the EAC continued to study public investments, the reformers recognized that future proposals would have to tailor this form of government intervention as an emergency measure rather than a permanent feature of postwar economic policy. From this point on, the EAC spoke mostly of a 'shelf' of public investment projects that could be selectively implemented when private investments fell short in particular sectors or regions.³⁷ Costs associated with these shelved projects, moreover, were far smaller than those implied by the National Development Board or the Marsh report.

Yet this diminution of public investments did not mean that Ottawa could avoid the question of constitutional change. A shelf of public investment projects would still necessitate a centralization of tax powers at the federal level of government. Similarly, an effective use of the shelved projects required that Ottawa have the authority to decide when and how provincial and municipal government undertook public investments in their jurisdictions. In spite of Cabinet's aversion to a large-scale public investment scheme, the EAC continued to press for a Dominion-provincial conference to negotiate a permanent transfer of income and corporation tax powers to the federal government.

Following Cabinet's sidelining of public investments, reformers looked at other means of increasing postwar aggregate demand.³⁸ In line with Keynesian theory, the reformers chose to put forward income redistribution policies that would boost postwar

³⁶ Owram, *Generation*, 305-306.

³⁷ Canada, Department of Reconstruction, *Employment and Income with Special Reference to the Initial Period of Reconstruction* (Ottawa: King's Printer, 1945).

³⁸ Owram, *Generation*, 311.

purchasing power. One income redistribution policy proposed by the reformers was cash grants for demobilized veterans. In October 1941 Cabinet passed P.C. 7633, the Post-Discharge Reestablishment Order. This order-in-council made military service an insurable type of employment under the Unemployment Act of June 1940. Those soldiers who found themselves jobless after demobilization would qualify for unemployment assistance until they found work. P.C. 7633 also promised veterans rehabilitation assistance. In 1942 the Reinstatement in Civil Employment Act and Veteran's Land Act were passed. The former guaranteed that returning soldiers could resume their pre-enlistment employment and status, including "pension and seniority rights for the period of [their] service,"³⁹ while the latter "provided \$4800 (of which \$1200 was for equipment) financed at 3.5 per cent to acquire a full-sized farm or a half-acre hobby operation."⁴⁰ Commendable though these efforts were, Clark saw that the welfare of veterans could be improved further by the institution of compensatory war service grants, a sentiment that appealed to the Liberal caucus. What was more, and likely most important to Clark, these cash grants would also inject a sizable amount of purchasing power into the economy.⁴¹ The money veterans would receive could be used to buy durable goods, clothes, food, or anything else returning soldiers and their families might want or need. In spite of the finance minister's usual wariness towards heavy postwar expenditures, Clark's reasoning won over Ilsley. Starting in the early summer of 1943, Clark and Ilsley worked to include war service grants in the government's legislative

³⁹ "Appendix 2: The Veterans' Charter," in Peter Neary and J.L. Granatstein, eds. *The Veterans Charter and Post-World War II Canada* (Montreal: McGill-Queen's University Press, 1998), 257.

⁴⁰ Jeff Keshsen, "Getting it Right the Second Time Around: The Reintegration of Canadian Veterans of World War II," in Peter Neary and J.L. Granatstein, eds. *The Veterans Charter and Post-World War II Canada* (Montreal: McGill-Queen's University Press, 1998), 66.

⁴¹ Slater, *War, Finance and Reconstruction*, 212-215.

agenda.⁴² Their efforts were successful. Cabinet agreed that the grants would be mentioned in the government's 1944 throne speech.

Clark and Ilsley also pressed Cabinet to include a housing program in the 1944 legislative agenda.⁴³ A construction slump brought on by the Great Depression had limited the number of new homes built in Canada between 1929-1939. While the outbreak of war gave new life to the construction industry, the strict requirements of war production constrained house building between 1939-1943. Consequently, when economists looked at the probable state of postwar housing in 1943, they saw a looming crisis.⁴⁴ Hundreds of thousands of returning soldiers would be seeking to purchase homes after their demobilization, but there would be only a limited number available. Clark and Ilsley appreciated that there was an ethical obligation to address the housing shortage. Yet they also saw the shortage as an opportunity. If the government offered Canadians loans to build new houses after the war, the construction industry would absorb thousands of unemployed labourers and purchases for every sort of household good would increase. Government housing loans were an effective and relatively uncontroversial way to reduce unemployment and inject purchasing power into the postwar economy.⁴⁵ Furthermore, because the money to buy houses would be refunded, the loans would not be seen as an elaborate, Marsh-style social security scheme. Similarly, rather than using federal money to fund public housing projects, the loans would primarily be used to hire private contractors, a practice that might appease ministers such as Howe. Conveniently mixing

⁴² *ibid.*, 212-215.

⁴³ *ibid.*, 206-209.

⁴⁴ Guest, *Social Security*, 127-128.

⁴⁵ Slater, *War, Finance and Reconstruction*, 206-209.

Keynesian theory and market-based problem solving, Cabinet agreed to promise the institution of a national housing program.⁴⁶

Family allowances were the third and most controversial income redistribution policy advocated by the EAC.⁴⁷ Like the war service grants, reformers argued that family allowances were a straightforward means of boosting aggregate demand. Families would receive a monthly stipend from the government for every dependent child in their household. These families could then use this money to buy whatever goods they required, including food, clothes, fuel, or appliances. Since the allowances would be sent regardless of employment status, moreover, they could help families cope with income losses that might result from joblessness in the transition period. As with the war service grants and housing loans, family allowances had the advantage of addressing non-reformist concerns as well, which made them more attractive to Cabinet than if they were merely sold as an application of Keynesian economics. While the war service grants touched on war leaders' ethical obligations to veterans and home loans addressed an undeniable housing shortage, family allowances appealed to a moral sense that government should help lift children from poverty. Prime minister King was especially moved by this facet of family allowances.⁴⁸ Yet this was not the only extra benefit tied to the allowances. They also addressed a pressing problem confronting the King government in 1943: labour protests calling for an end to wage controls.

Labour unions had fought against the wage ceiling since its introduction in October 1941. Wage controls not only capped the income of workers, they also eliminated one of the principal reasons why labourers joined unions –namely to see their

⁴⁶ Guest, *Social Security*, 127-128.

⁴⁷ LAC, RG19, vol. 304, file 101-53-114, "EAC memoranda on children's allowances," 12 January 1944.

⁴⁸ Struthers, "Family Allowances," 185.

wages increase through collective negotiation.⁴⁹ To advance their own organizational interests and those of the workers they represented, union leaders were determined to see the wage ceiling raised or shattered. In 1941, before the wage ceiling came into effect, there were 231 strikes and lockouts in Canada. By 1942, the first year the ceiling was in place, more than 350 strikes and lockouts took place.⁵⁰ Initially the King government hoped that the growing strike wave could be contained through compulsory arbitration and the granting of small wage increases vetted by the National Wartime Labour Board (NWLB). This strategy had the reverse effect. Emboldened by the NWLB's lackadaisical enforcement of the wage ceiling, labour unions intensified their pressure tactics. In January-February 1943, steelworkers mounted two large strikes in Sault Ste. Marie, Ontario, and Sydney, Nova Scotia. Among their grievances, the steel strikers demanded that their minimum wage be increased to fifty cents an hour, "which represented an average 15 percent raise,"⁵¹ an increase that would grossly violate the spirit of the wage ceiling. Confronted with this work stoppage in a vital wartime industry, the NWLB nonetheless capitulated. As the year went on, with labour seeing the potential benefits of pressuring the government in wartime, ever more strikes broke out, over 400 before 1943 ended.

In the summer of 1943, the NWLB held hearings on the state of Canadian industrial relations. Their aim was to investigate how the strike wave could be halted while satisfying the demands of labour and preserving the stabilization program. The

⁴⁹ Granatstein, *Canada's War*, 179.

⁵⁰ Canada, Dominion Bureau of Statistics, *Canada Year Book 1946* (Ottawa: King's Printer, 1946), 772.

⁵¹ Keshen, *Saints*, 60.

NWLB released majority and minority reports on the hearings in August 1943.⁵² Writing for the majority, the chairman of the NWLB, C.P. McTague, argued that the government should either accept a fifty-cent an hour minimum wage for all labourers in war-related industries or institute family allowances to elevate workers' incomes. The idea of using family allowances to substitute for wage increases was not new. Graham Towers and the prime minister's personal secretary, J.W. Pickersgill, had made the same case in the early summer of 1943.⁵³ McTague's endorsement added credence to the option.⁵⁴ But the government hesitated nonetheless. Family allowances also had several disadvantages and deficiencies. J.L. Cohen, a labour lawyer who wrote the minority NWLB report, argued that the government would be acting in bad faith if family allowances were introduced to deny labour higher wages. Some English-Canadian politicians grumbled that family allowances would disproportionately benefit francophone Canadians who tended to have more children. Many commentators and decisionmakers, including the prime minister,⁵⁵ doubted whether the wage ceiling was worth preserving; if it was not, then McTague's recommendation of a fifty cent minimum hourly wage should be accepted instead of family allowances.⁵⁶ The NWLB reports, moreover, had shown that a lack of collective bargaining legislation was as much a cause of the ongoing labour unrest as was the wage ceiling. Unless the government dealt with the collective bargaining issues, family allowances would be insufficient to appease disgruntled workers and end the strike wave.

⁵² LAC, RG19, series E-1(d), file 700-18, "Summary of NWLB reports submitted to J.L. Ilsley," 15 September 1943.

⁵³ James Struthers, "Family Allowances, Old Age Security, and the Construction of Entitlement in the Canadian Welfare State," in Peter Neary and J.L. Granatstein, eds. *The Veterans Charter and Post-World War II Canada* (Montreal: McGill-Queen's University Press, 1998), 182; Granatstein, *Canada's War*, 267.

⁵⁴ LAC, MG26-J13, William Lyon Mackenzie King Diary, 1 October 1943.

⁵⁵ *ibid.*, 5 October and 3 & 4 November 1943.

⁵⁶ LAC, RG19, series E-1(d), file 700-18, "Report to minister of labour on reports of NWLB," 15 September 1943.

Finally, family allowances were sure to incur substantial expenditures. The large amount of money the government would transfer to families under the allowance program, of course, was what attracted the Keynesian reformers to the policy.⁵⁷ Yet this same fact meant that family allowances drew the fire of fiscally conservative Cabinet ministers, including Howe,⁵⁸ whose skills at defeating reformist proposals were well-honed.

Regardless of these doubts and critiques, the case for family allowances was strong. Thanks to the unwavering stance of the EAC and WPTB, the King government recognized that the wage ceiling could not be lifted without wrecking the entire stabilization program.⁵⁹ As long as the allowances were universally allocated to all families below a set income, furthermore, union leaders would find it difficult to claim that the program was specifically designed to keep their members' wages down.⁶⁰ And if family allowances were accompanied by a commitment to guarantee collective bargaining rights and union recognition, labour unrest could be quickly and quietly quelled.⁶¹ Lastly, the difficulties that the 1943 strike wave imposed on Canadian war production and the anti-inflation program were such that cost-related was overcome.⁶² In January 1944, against the opposition of Howe, Cabinet agreed that family allowances would be mentioned in the upcoming throne speech. The reformers got their third aggregate demand boosting initiative, though labour unrest and the survival of the stabilization program deserved most of the credit.

⁵⁷ LAC, RG19, vol. 304, file 101-53-114, "Summary of EAC discussion re family allowances," undated.

⁵⁸ LAC, WLMK Diary, 6 January 1944.

⁵⁹ LAC, RG 19, vol. 498, file 121-0-7, "EAC report on price and wage stabilization program," 16 July 1943.

⁶⁰ LAC, RG19, vol. 304, file 101-53-114, "EAC memoranda on children's allowances," 12 January 1944.

⁶¹ LAC, RG19, vol. 498, file 121-0-7, "W.C. Clark memoranda on industrial relations program," undated.

⁶² LAC, RG19, vol. 304, file 101-53-114, "EAC memoranda on children's allowances," 12 January 1944.

On 27 January 1944 the governor general read the King government's throne speech to Parliament. The throne speech was an apparent triumph of social progress and Keynesian reform, meant to convince Canadians that the Liberals would protect their standard of living in peacetime, develop policies to preserve the country's economic prosperity, and lure voters back from the CCF.⁶³ The Liberals pledged to provide veterans with proper compensations and generous benefits, including the war service grants sought by Clark. Canadians were also promised an improved social safety net, including family allowances, an expanded unemployment assistance program, and, following negotiations with the provinces, the institution of a national health insurance system and an enhanced old age pensions scheme. In addition, the Liberals announced that government would address the housing shortage and set floor prices for farm and fishery products.

Interestingly, however, the reformist rhetoric of the throne speech was diluted when the nature of the postwar economy was discussed. Here Howe's influence was unmistakable. While the Liberals assured Canadians that full employment would be maintained after the war, there was no discussion of public investments. Instead the government made clear that the engine of postwar prosperity would be a reconverted market economy. In fact, the government's main contribution to postwar economic growth would be the establishment of an industrial development bank to help fund private investments and export credits to bolster the international competitiveness of Canadian firms. Keynesian though the other aspects of the throne speech were, this emphasis on a revived capitalist ordering and private investments indicated that Howe retained a significant role in setting reconstruction policy.

⁶³ Granatstein, *Canada's War*, 274-276.

In the winter of 1944, the reformers busied themselves with transforming the throne speech promises into legislation. As they did so, however, Cabinet and EAC had to address the still unresolved tensions plaguing Canadian industrial relations. In February 1944, Cabinet passed P.C. 1003, the Wartime Labour Relations Regulations.⁶⁴ As recommended by the NWLB, P.C. 1003 enshrined the principle of collective bargaining in war-related industries. Employers could no longer refuse to deal with unions or punish workers who unionized. This protection would last throughout the reconversion period, which would prevent employers from eroding workers' rights during the postwar transition period and the expected phase of labour surpluses. In exchange for this advance in labour rights, war industry unions were forbidden to strike over union recognition and certification issues.⁶⁵ Those few strikes that remained legitimate under P.C. 1003 would only be legal if union and management representatives failed to settle their differences under a prolonged, two-stage compulsory conciliation procedure. "Compulsory conciliation not only delayed the point at which a union could resort to industrial sanctions, it also reinforced the idea that only certain strikes were legal."⁶⁶ Although neither labour leaders nor their business counterparts were entirely pleased with the provisions of the Wartime Labour Relations Regulations, P.C. 1003 achieved what the King government sought. Fewer strikes and lockouts occurred in 1944, and an interlude of relative industrial peace was maintained until the war ended.⁶⁷

In the summer of 1944, the reformers' aggregate demand-boosting social assistance programs were passed by the House of Commons. The National Housing Act

⁶⁴ LAC, RG19, vol. 498, file 121-0-7, "P.C. 1003," 17 February 1944.

⁶⁵ Judy Fudge and Eric Tucker, *Labour Before the Law: The Regulation of Workers' Collective Action in Canada, 1900-1948* (Toronto: Oxford University Press, 2001), 274.

⁶⁶ *ibid.*, 274.

⁶⁷ *Canada Year Book 1946*, 772.

provided government assisted loans to home owners and builders, including those who planned repairs, renovations and extensions.⁶⁸ The War Service Grants Act authorized the following gratuity payments to veterans who declined job training, university scholarships, or the Veterans' Land Act farming loan: \$7.50 for every month's service in Canada; \$15 for every month's service overseas; and seven day's pay and allowances for each six months' service overseas.⁶⁹ In addition, a \$100 voucher for clothing and bonuses for military merits were offered.⁷⁰ On average, veterans were to be paid gratuities totalling between \$700-\$1200.⁷¹ When the Grant Act was passed, King estimated that the gratuities would cost Ottawa \$750 million.⁷² It was an enormous sum. Yet, as the reformers had argued, this money represented an equal amount of purchasing power that would be injected into the economy during the transition period.

Family allowances committed the federal government to longer-term expenditures. Coming into effect in June 1945, the allowances gave eligible families \$5 a month for every child under six; \$6 for every child between six to nine; \$7 for every child aged 10-12; and \$8 for every adolescent between 13-15 years of age. For the typical household, the monthly allowance would increase their income by approximately ten percent, a sizable raise considering the controlled cost of living.⁷³ Family allowances were expected to cost the federal government, and boost purchasing power by, \$200-250 million a year.⁷⁴ Between 1945-1950 the program would infuse nearly \$1 billion of

⁶⁸ Slater, *War, Finance, Reconstruction*, 207.

⁶⁹ *ibid.*, 215.

⁷⁰ Jeff Keshsen, "Getting it Right the Second Time Around: The Reintegration of Canadian Veterans of World War II," in Peter Neary and J.L. Granatstein, eds. *The Veterans Charter and Post-World War II Canada* (Montreal: McGill-Queen's University Press, 1998), 72.

⁷¹ *ibid.*, 72.

⁷² Slater, *War, Finance, Reconstruction*, 215.

⁷³ *ibid.*, 217.

⁷⁴ Guest, *Social Security*, 130.

aggregate demand into the postwar economy. As envisioned by the Keynesians, this steady stream of redistributed purchasing power would be circulating and bolstering Canadian economic prosperity over the long-term.

By the late summer of 1944, the EAC reformers felt that they had instituted vital Keynesian measures to help ease the strains of immediate postwar unemployment.⁷⁵ These policies would also assist in offsetting a severe economic downturn in the years following the transition period. What was more, beginning with the 1944 throne speech, the King Liberals had embraced a reformist discourse. King and his ministers were telling Canadians that their party would provide full employment for all who wanted to work, improve their social welfare and protect their standard of living, and better the lives of those who had worn the uniform. Hence, while the throne speech failed to mention public investments, the reformers could find solace in the fact that the Liberals might not be able to fulfill these commitments without reconsidering their wariness of direct government interventions in the economy. For dedicated Keynesians such as Mackintosh, Bryce, and Skelton, the public investment debate was not yet over, and they had reason to believe that they could triumph in the second round.

Reformers were optimistic for other reasons as well. On the eve of Cabinet's acceptance of family allowances and the war service grants, Ilesley had written a memoranda to Cabinet outlining the necessity of a constitutional amendment to transfer provincial tax powers to the federal government. The finance minister worried that Ottawa would be unable to afford social welfare programs, business assistance policies, postwar defence expenditures, and debt charges unless the wartime tax agreements with

⁷⁵ See R.B Bryce, "From Policy to Legislation, 1944" in David W. Slater, *War, Finance and Reconstruction* (Ottawa: Department of Finance, 1995).

the provinces were made permanent.⁷⁶ The reformers agreed on all these points, but Ilsley's endorsement of centralized tax powers also served to advance their broader Keynesian agenda. Once the constitution was amended, Ottawa would have the ability to fund public investments. Since the EAC was convinced that public investments would eventually be necessary to keep Canada out of recession, lingering ministerial resistance would be overcome by circumstance, and having the tax powers in place would allow the government to rapidly implement projects found on the public investment shelf. In addition, centralized tax powers would enable the federal government to implement the reformers' third Keynesian policy, counter-cyclical budgeting. As yet not a prominent feature of reformers' reconstruction plans, the promotion of counter-cyclical budgeting accelerated once the government's social assistance legislation was accepted by Parliament. While Cabinet's support for counter-cyclical budgeting was still unsure, the reformers understood that the centralization of tax jurisdictions was a critical first step towards making the correction of business cycles a standard feature of postwar fiscal policy. Like public investments, the reformers likely hoped that once the means for counter-cyclical budgeting were in hand, selling Cabinet on the notion of business cycle corrections would be easier.

The reformist momentum encountered an intractable obstacle in the fall of 1944. In the 1944 throne speech, the King government announced the creation of three new departments: a department of veterans affairs (DVA); a department of national health and welfare; and, a department of reconstruction (DoR). Mackenzie's chairmanship of the demobilization and reestablishment committee made him the natural choice to head DVA. Prime minister King's new protégé, Brooke Claxton, a longstanding reformer and

⁷⁶ Granatstein, *Canada's War*, 273-274.

champion of social justice, meanwhile, was being groomed to assume the helm of health and welfare.⁷⁷ This left DoR. King's first choice to serve as the reconstruction minister was Howe.⁷⁸ Though the prime minister regularly criticized his 'reactionary' views, Howe's management of DMS and Canadian war production showed that he was one of the ablest ministers in the King Cabinet. King's heart may have preferred a less dogmatic capitalist to direct the state's reconstruction policies, but his head knew that Howe was the best candidate to do what was required: return Canada to a prosperous and stable market economy. Howe's understanding of Canada's industrial capacities was unmatched and his role in converting the nation's economy from a civilian to wartime economy made him uniquely suited to direct the reverse process. Moreover, Howe had let it be known that he would not let outside agencies or departments interfere in the reconstruction-related activities of DMS.⁷⁹ It was thus logical that Howe be tasked with leading the reconstruction department; if he were minister of both DMS and DoR, relations between the two departments would be harmonized and synchronized. With his decision made, King began a prolonged campaign to woo Howe into the new ministry.

Howe at first refused to head DoR. He worried that the new department would be powerless and unfocused, and that DoR would not have reconversion as its main function. Nevertheless, with few suitable candidates available to take the post, King kept at Howe. Finally, on 5 October 1944, Howe finally accepted the prime minister's offer, but only on condition that DoR be given autonomous decision-making and spending powers, that it coordinate reconversion once DMS ceased to exist, and that the new

⁷⁷ Bothwell, Drummond, English, *Canada 1900-1945*, 391.

⁷⁸ Robert Bothwell and William Kilbourn, *C.D. Howe: A Biography* (Toronto: McClelland and Stewart, 1979), 183-186.

⁷⁹ LAC, RG28, vol. 138, file 3-E-1-1, "R.A. Henry to K.B. Palmer," 28 August 1943.

department was unchallenged by other bodies in formulating reconstruction policy as a whole.⁸⁰

Once Howe became minister of DoR, reconstruction policy came under the direction of a powerful Cabinet member who discounted many of Keynesianism's central assumptions and prescriptions. Future reform proposals would have to be approved and vetted by a minister who was inherently skeptical of their value. A second complication the reformers faced in the fall of 1944 was the emerging rift between the WPTB and EAC. By the late summer of 1944, Donald Gordon was beginning to question the reformers' view of the postwar economic environment and aligned himself with Howe and DMS. At the moment when their policy proposals seemed to be dominating the reconstruction debate and the Liberals were adopting their rhetoric, the tide turned against the reformers.

3.2) Reconversion and Stabilization to the Fore, 1944-1945

DMS began its postwar planning in the late summer of 1943. Senior officials from munitions and supply recognized that the time had come to assert their control of postwar industrial and investment policy; the Allies were making significant gains against the Axis powers, the government and public taking an increasing interest in the peacetime economy, and the EAC attempting to exert influence over DMS' jurisdictions under the guise of a coordinated approach to reconstruction. If they hesitated any longer, an anxious Cabinet might grant the EAC an oversight authority over post-hostilities industrial planning, precisely what Howe and DMS sought to avoid.⁸¹ Echoing the

⁸⁰ Bothwell and Kilbourn, *Howe*, 184-185.

⁸¹ LAC, RG28, vol. 138, file 3-E-1-1, "R.A. Henry to K.B. Palmer," 28 August 1943.

convictions of their minister, K.B. Palmer, chairman of DMS' advisory committee on economic policy, and R.A. Henry, Howe's executive assistant, were resolute that postwar industrial and investment policy should serve strict reconversionist ends. As regularly articulated and forcefully defended by Howe, strict reconversion policies aimed to restore as free a market in Canada as the public and King government would accept.⁸² Contrary to the views of the reformers, strict reconversion meant that private enterprise would be trusted with employing returning soldiers and those left jobless by the winding down of war production. Similarly, private capital investments would be emphasized over public investment schemes. During the same period when the reformers were forwarding interventionist policies, DMS was countering with reconversion policies that emphasized a limited government role in the country's postwar economic affairs.

Reconversion involved two sets of policies. Industrial decontrols were the first. In September 1943, the Wartime Industry Control Board (WICB) controllers received a decontrol survey from Henry Borden, the controls coordinator.⁸³ Borden's survey asked the controllers to identify which of their industrial controls they felt should be relaxed first, and which last. In addition, the controllers were asked to comment on how well they expected their industry would fare following the war. To keep DMS reconversion planning confidential, Borden implored the controllers to be discreet when completing the survey. Advertising the WICB's foray into reconstruction policy might have drawn the prying gaze of the reform-minded EAC.⁸⁴ Borden collected the controllers' completed surveys throughout the late fall of 1943.⁸⁵ Except for a few dissenters, the controllers

⁸² Owram, *Generation*, 302-3.

⁸³ LAC, RG28, series A, vol. 332, file 196-40-10-2, "H. Borden to all controllers," 16 September 1943.

⁸⁴ LAC, RG28, vol. 138, file 3-E-1-1, "R.A. Henry to K.B. Palmer," 28 August 1943.

⁸⁵ The completed surveys are available in LAC, RG28, series A, vol. 332, file 196-40-10-2.

agreed that their industries would be well positioned to resume civilian production, operate with fewer controls, and provide high levels of employment once hostilities ceased. There was also a consensus that calculated control relaxations could commence immediately, and that an orderly control removal should start as early as 1944. By 31 December 1943, over twenty chemical, construction, tool, metal, vehicle, oil, rubber, steel, timber, and supply controls were relaxed, and by August 1944 an equal number of controls in these industries were rescinded.⁸⁶ It was a small but promising beginning of what historians Robert Bothwell and William Kilbourn describe as the “real business of reconstruction.”⁸⁷

Measures to encourage civilian production and private investment were the second set of reconversion policies. Returning war industries to civilian manufacturing involved a selective cancellation of war contracts and the selling of government war plants and assets. This was a delicate process, since the future equipment and supply needs of the Allied forces could only be approximated. Were war contracts and assets sold too soon, the Allied militaries Canada helped supply might experience shortfalls at a critical point in the war. On the other hand, if the cancellation of contracts and selling of assets was unduly delayed, Canadian industry would be ill-prepared to employ returning soldiers or meet the demand for civilian goods. In October 1943 DMS launched a study of war contract cancellations, government-owned plant conversions, and war asset disposal.⁸⁸ Assisting DMS in selling war assets was the War Assets Corporation, created

⁸⁶ LAC, RG28, series A, vol. 332, file 196-40-10-2, “J. G. Godsoe to C.L. Drewry re relaxation of controls,” 18 September 1944.

⁸⁷ Bothwell and Kilbourn, *Howe*, 186.

⁸⁸ LAC, RG28, vol. 138, file 3-E-1-1, “Scope and inquiry of DMS advisory committee on economic policy,” 15 October 1943.

in November 1943. It sold over \$300,000 worth of government surplus by June 1944.⁸⁹ In February 1944, DMS also issued a manual for ending war contracts to its clients.⁹⁰ Given the heavy fighting that began in Western Europe in June 1944, however, contract cancellations did not begin in earnest until the fall of 1944.

To promote private investment during the final phases of war and in the transition period, Howe and senior DMS officials proposed that firms be offered tax incentives to purchase new capital equipment, undertake factory upgrades and expansions, and convert to civilian manufacturing.⁹¹ However, DMS did not have the authority to set tax policy. Making this aspect of reconversion happen required the consent and cooperation of the finance minister. Fortunately for Howe and his fellow reconversionists, Ilsley shared their belief that the encouragement of private investment should be at the forefront of fiscal policy as the end of war approached.⁹² In the June 1944 federal budget, Ilsley launched a tax program to stimulate private investments.⁹³ Known as ‘double depreciation’, the initiative allowed firms to deduct spending on capital investments from their wartime tax payments.⁹⁴ Lasting until 1947, double depreciation was an attractive proposition for companies which might otherwise have been wary of investing in new assets while their profits were heavily taxed.⁹⁵ Between the summer of 1944 and the war’s end, firms filed for depreciations worth over \$500 million.⁹⁶

⁸⁹ *Canada Year Book 1946*, 837.

⁹⁰ Bothwell, Drummond, English, *Canada 1900-1945*, 392.

⁹¹ Owrarn, *Generation*, 303; Bothwell and Kilbourn, *Howe*, 188.

⁹² Granatstein, *Canada’s war*, 274.

⁹³ Canada, Department of Finance, *1944 Budget Speech* (Ottawa: King’s Printer, 1944)

⁹⁴ An explanation of how double depreciation was applied is available in Bothwell, Drummond, English, *Canada 1900-1945*, 392.

⁹⁵ Kenneth Norrie and Douglas Owrarn, *A History of the Canadian Economy* (Toronto: Harcourt Brace, 1991), 533.

⁹⁶ Peter S. McInnis, *Harnessing Labour Confrontation: Shaping the Postwar Settlement in Canada, 1943-1950* (Toronto: University of Toronto Press, 2002), 36.

By the early fall of 1944, Howe and DMS had advanced reconstruction policies that rivalled those of the reformers in terms of scope, monetary value, and importance. Unlike the reformers, though, Howe's reconversion agenda could proceed further without waiting for constitutional amendments or a Dominion-provincial conference. This leeway alone would have permitted reconversion to surpass reform as the King government's central reconstruction focus in late 1944 and early 1945. But there were other factors that solidified reconversion's ascent. Above all was Howe's acceptance of the DoR ministry. When he assumed the leadership of the new department, DMS' reconstruction priorities became DoR's, too. In effect, placing Howe at the head of DoR rendered strict reconversion the guiding policy of two of the King government's largest departments. Reports from the American Office of War Mobilization and Combined Production and Resources Board, with whom Howe kept close contact throughout the war, indicated that the United States was planning as rapid and categorical a reconversion as DMS.⁹⁷ This information reinforced the logic of strict reconversion, providing Howe with further momentum. Economic indicators from both Canada and the United States also showed that Howe's views about postwar employment and economic growth were sound. James Brynes, director of the United States Office of War Mobilization, sided with Howe's claim that postwar unemployment could be avoided without large-scale public investments.⁹⁸ Furthermore, assessments of the Canadian economy in the summer of 1944 reported that there was a growing amount of pent-up demand for civilian goods that would be sustained throughout the transition period and beyond, assuming industry was

⁹⁷ LAC, MG27III-B20, vol.80, series 2-7-1-3, file C.P.R.B (39), "Reconversion: A report to the President from James F. Brynes, Director of War Mobilization," 1944 and "G.C. Bateman of Combined Production and Resources Board to C.D. Howe," 15 September 1944.

⁹⁸ LAC, MG27III-B20, vol. 80, series 2-7-1-3, file C.P.R.B (39), "Summary of economic developments in the United States," September 1944.

rapidly reconverted to civilian production. Some reports estimated that Canadians were prepared to spend \$6.5 billion on consumer goods once hostilities ceased and controls were lifted.⁹⁹ Coming as it did before the reformers' purchasing power boosting initiatives were in effect, this rising wave of demand suggested that Howe's grasp of the war's impact on the economy, industry, and consumer confidence surpassed that of the EAC, the James Committee, and most other economists. Adding a touch of irony to Howe's predictive triumph over the Keynesian theorists was that the assessments that identified the demand wave were prepared by the reformers themselves.¹⁰⁰ Taken together, the reconversionist direction of both DMS and DoR, the American commitment to strict reconversion, and indicators pointing to a strong postwar economy left Howe's command of reconstruction policy incontestable.

Reconversion's dominance of the reconstruction agenda did not involve a marginalization of stabilization policy. On the contrary, even the strictest reconversionist understood that Ottawa had to guard against unchecked inflation; otherwise, the expected post-hostilities demand boom would wreck the very economic prosperity and stability reconversionists hoped it would sustain. As a result, deference was paid to the warnings and cautionary prescriptions of Donald Gordon and the WPTB. Hypothetically, this openness to stabilization policies could have fomented tension between the WPTB and DMS/DoR. The WPTB's aim, after all, was to temper demand, while DMS and DoR sought to unleash pent up purchasing power and investment. Yet potential disagreements between the three bodies were largely avoided thanks to Gordon's accord with the reconversionists' optimistic economic forecasts and his alignment with Howe against the

⁹⁹ Joseph Schull, *The Great Scot: A Biography of Donald Gordon* (Montreal: McGill-Queen's University Press, 1979), 94.

¹⁰⁰ Bothwell and Kilbourn, *Howe*, 192.

reformers.¹⁰¹ This partnership between the WPTB and DMS/DoR overrode most divisions among the advocates of stabilization and reconversion.

Gordon began thinking about postwar stabilization policy in January 1944. The previous year's wage ceiling battle had been settled with the promise of family allowances, collective bargaining legislation, and a minor adjustment to the wage control order. These compromises ensured that wartime stabilization measures were unquestioned for the remainder of the war, leaving the WPTB to concentrate on postwar anti-inflation policies. In a report dated 10 January 1944, Gordon outlined his "very tentative" ideas about stabilization procedures for the transition period.¹⁰² He was clear that the WPTB should "do everything within its jurisdiction to stimulate the reconversion of industry to civilian production." Yet Gordon also recognized that, in some cases, the WPTB would need to re-impose controls and supply distribution measures on industries DMS was decontrolling. Similarly, the WPTB would have to deny certain price increases firms might claim as part of their reconversion to civilian production.

While preventing price increases could present some firms with a disincentive to invest in new capital or produce new consumer goods, Gordon was confident that the anti-inflation program would not overly hamper the pace of reconversion. Tax deductions that firms would receive for new investments would offset higher production costs, and Canadians' thirst for durable consumer goods would compel industry to accelerate civilian manufacturing, in spite of the relatively lower profits that followed from the price ceiling. In addition, Gordon believed that prices for most durable consumer goods could be permitted to increase slightly, since these products were rarely found on the cost of

¹⁰¹ Schull, *Gordon*, 94-97.

¹⁰² LAC, RG19, vol. 3993, file W-2-5, "D. Gordon submission to W.C. Clark of memoranda on WPTB and de-control," 10 January 1944.

living index. Hence, though the objectives of the WPTB and DMS would “often conflict in the decontrol period,” careful planning and close cooperation between the two bodies could advance the cause of reconversion without undermining the ends of stabilization. What was more, rather than concentrating on reconverting industries, Gordon was convinced that inflation could best be combated if the WPTB focused on maintaining ceilings on, and an adequate distribution of, those goods that directly affected production costs and the cost of living. Doing so would ease the pangs of reconversion while protecting Canadians standard of living. In practice, this meant prolonged distribution controls for raw materials, stringent price ceilings on retail goods, farm products, and rents, and a surveillance of labour costs.

Gordon’s worries about labour costs placed him at odds with the prevailing view that the end of hostilities would spark widespread unemployment. If massive unemployment followed the war, as the reformers still held, wages and labour costs would fall rather than climb. In expressing concerns about an upward pressure on wages, Gordon was implicitly siding with Howe against the reformers. It was the first sign of a growing rift between the WPTB and EAC. In the summer of 1944, Gordon, like Howe, recognized that there was a flood of demand building up.¹⁰³ The sheer size of this pent up demand meant that “every factor of inflation was enlarged rather than reduced.”¹⁰⁴ In September 1944, moreover, Gordon learned that the United States government was preparing to abandon its already weak price and wage controls once hostilities ceased.¹⁰⁵ The ensuing rise in American wages and prices would inevitably increase inflationary

¹⁰³ Schull, *Gordon*, 94-97.

¹⁰⁴ *ibid.*, 97.

¹⁰⁵ LAC, RG19, vol. 389, file 101-102-38, “Notes on trip to Washington of D. Gordon,” 20 September 1944.

pressures in Canada. As he looked toward to the expected Allied victory over the Axis powers, Gordon saw that the WPTB's stabilization program was facing ever mounting challenges. Worried by what he was witnessing, Gordon hoped that the EAC would commit additional time, thought, and resources to postwar stabilization planning.¹⁰⁶ His request received a cool reception. The EAC was more interested in defending its functions against the new department of reconstruction. Frustrated, Gordon wrote to the EAC chairman. "As a matter of fact," he told W.C. Clark, "I have been uneasy for some time about continuing as a Member of that Committee because it seemed to me that it is not carrying out its functions."¹⁰⁷ "My general 'hunch'," he continued, "is that when the Minister of Reconstruction gets established the Economic Advisory Committee should be wound up and the new Minister left free to decide whether or not he wishes to have an Advisory Committee attached to his department." Gravitating toward Howe's postwar outlook and in the context of the tighter relations between the WPTB and DMS, Gordon's understandably sought to refine his postwar stabilization program in conjunction with the minister of munitions and supply's new department.

When he answered Gordon, Clark reminded the WPTB chairman, "When you look at the legislation which was introduced at the last session of the House...I think one has to admit that a very respectable reconstruction program has already been worked out and indeed implemented by legislation."¹⁰⁸ Gordon was likely unimpressed with Clark's defence of the EAC. The legislation that the deputy minister of finance referred to - family allowances, war service grants, the national housing act - would strengthen the already expansive demand wave troubling the WPTB. While Gordon may have supported

¹⁰⁶ LAC, RG19, vol. 3993, file W-2-5, "W.C. Clark to D. Gordon," 2 October 1944.

¹⁰⁷ LAC, RG19, vol. 3993, file W-2-5, "D. Gordon to W.C. Clark," 7 October 1944.

¹⁰⁸ LAC, RG19, vol. 3993, file W-2-5, "W.C. Clark to D. Gordon," 16 October 1944.

the reformers purchasing power boosting initiatives in principle, he was expecting the EAC to help the WPTB address the increased inflationary pressures these measures would incur. Clark's mind, however, was elsewhere; the EAC chairman was still preoccupied with where his committee fit in a reconstruction agenda directed by the newly created departments of veterans affairs, health and welfare, and above all, Howe's DoR.¹⁰⁹ From this point on, Gordon tried to circumvent the Clark and the EAC. When debating ways to balance the aims of stabilization and reconversion, Gordon chose to consult directly with Howe and Ilsley.¹¹⁰

As Gordon's relationship with the EAC deteriorated, Howe became less critical of certain reform ideas. With his direction of reconstruction policy now nearly absolute, Howe was open to franker discussions about how reformist policies could buttress his reconversion program, though industrial decontrol and double depreciation approvals continued to be DMS/DoR's main priorities.¹¹¹ In September 1944 the department of labour reported that, once demobilization was complete and a majority of war contracts were cancelled, approximately one million Canadians would be seeking employment.¹¹² While the retirement of older workers and domestication of female employees would free up some positions, the number of unemployed to be absorbed by the private sector was nonetheless vast. Recognizing this reality and aware of the consequences if private enterprise failed in this endeavour, Howe softened his opposition to public investments, but only by a fraction. In October 1944, Howe told the Trade and Labour Congress that

¹⁰⁹ LAC, RG19, vol. 3993, file W-2-5, "W.C. Clark to D. Gordon," 16 October 1944.

¹¹⁰ See, for instance, LAC, RG19, vol. 393, file 101-102A-6, "D. Gordon to J.L. Ilsley," 2 February 1945 and "D. Gordon to J.L. Ilsley," 5 March 1945; LAC, RG19, vol. 388, file 101-102-38, "D. Gordon to C.D. Howe," 26 March 1945 and "J.L. Ilsley to D. Gordon," 29 March 1945.

¹¹¹ LAC, RG19, vol. 393, file 101-102A-6, "Summary of industrial control relaxations," 12 January 1945.

¹¹² LAC, MG27III-B20, vol. 49, file S-11, "Labour department report to prime minister re postwar employment," 27 September 1944.

he did not “regard one million new jobs as an impossible objective,” and that he was “greatly encouraged by the indications to date” that industry was poised to meet its “obligation” to create those jobs.¹¹³ “Too much emphasis,” he proclaimed, “has been placed on large scale public projects as a means of creating employment.” Nevertheless, Howe assured the union members that the “planning of public projects will not be overlooked in connection with reconversion,” and that public investments would be initiated when “we require them to take care of spotty employment.” No doubt motivated in part by the Liberals’ pre-election posturing, Howe’s words also signalled that he was somewhat flexible about public investments when employment was at stake.

More evidence of Howe’s conciliatory attitude is seen in his choice of senior officials for DoR. For the deputy minister of DoR, Howe picked R.A. Henry, formerly his executive assistant at DMS. The new department’s top bureaucrat shared the minister’s strong reconversionist views. To serve as his senior economic advisor, however, Howe chose W.A. Mackintosh, the architect of the reformers’ boldest Keynesian proposals, including the National Development Board. At first it seemed that Howe had picked the wrong man. Mackintosh arrived at DoR determined to advance reform-oriented policies that Howe refused to consider. The minister and his advisor appeared only to agree to disagree. Yet, once Mackintosh recognized the futility of trying to change Howe’s views fundamentally, and when the minister accepted that the public and Liberal caucus wanted a reconstruction platform that delivered more than strict reconversion and stabilization, the two found common ground.¹¹⁴ Reconversion and stabilization would be the centerpieces of DoR’s reconstruction program, but the

¹¹³ LAC, MG27III-B20, vol. 147, file 89-2, “Howe notes for Trade and Labour Congress speech,” 26 October 1944.

¹¹⁴ Bothwell and Kilbourn, *Howe*, 192-193.

department would also endorse counter-cyclical budgeting and a reserve of shelved public works to fill employment and investment gaps left by the private sector.

Considering Howe's doggedness and studies predicting a prosperous postwar economy, it was all the reformers could hope to get.

In the late winter of 1945, Mackintosh recommended that DoR table a white paper outlining the government's reconstruction program. Such a document would help the Liberals' reelection efforts by presenting the public with a clear and confident statement of the government's plans for the postwar economy. Mackintosh also hoped that a white paper would commit the government to the few Keynesian reforms that Howe had recently approved. Worried that a white paper might raise "false expectations" and constrain his freedom of action, Howe hesitated.¹¹⁵ But when Henry acknowledged the utility of a white paper and Mackintosh stubbornly refused to let the idea pass, the minister buckled. Mackintosh was permitted to write a draft of the document. After distributing the document to a number of DMS and DoR reconversionists for comment, Howe asked for a only a few changes to the draft Mackintosh submitted. Most notably, the reconstruction minister altered the draft's promise of 'full employment' to read 'high and stable employment'.¹¹⁶ That Mackintosh was not ordered to substantially rework his draft shows that he had come to recognize the boundaries Howe set on reformist initiatives in reconstruction policy. Once the final version of the white paper was vetted by Howe, Ilsley, and the minister of justice, Louis St. Laurent, the white paper, titled *Employment and Income*, was presented to Parliament on 12 April 1945.¹¹⁷

¹¹⁵ *ibid.*, 193-194.

¹¹⁶ *ibid.*

¹¹⁷ Canada, Department of Reconstruction, *Employment and Income with Special Reference to the Initial Period of Reconstruction* (Ottawa: King's Printer, 1945).

Touted by certain former government officials as an achievement of Keynesian reform,¹¹⁸ *Employment and Income* in fact reflected the centrality of reconversion and stabilization policies in reconstruction planning. The white paper began on an apparently reformist note. It stated that “The ultimate aim of all reconstruction policies is the extension of opportunity, welfare and security among all the Canadian people,” and that “The central task of reconstruction... must be to accomplish a smooth, orderly transition from the economic conditions of war to those of peace and to maintain a high and stable level of employment and income.” Within a few pages, however, the true spirit of the document was revealed. “The Government,” it outlined, “does not believe it to be either desirable or practicable to look to the expansion of government enterprise to provide, to any large degree, the additional employment required. It follows that a major and early task of reconstruction is to facilitate and encourage an expansion of private industry.” Indeed, the top reconstruction priorities listed in the paper included only one significant Keynesian initiative, the national housing program. The other domestic priorities -- demobilization, industrial decontrol, the encouragement of private investment and civilian manufacturing, and “policies of economic stabilization and control over scarce materials and productive capacity”-- served either reconversionist or anti-inflationary ends. While the paper did address the importance of public investments, especially in the field natural resource development, it reiterated that “The postwar employment problem is not to be solved by huge expenditures on ‘public works’”. An “available ‘shelf’ of soundly planned projects” would only be called on when “prospective employment conditions make it desirable to increase public investment expenditures” or when falling

¹¹⁸ W.A. Mackintosh, “The White Paper on Employment and Income in its 1945 Setting,” in *Canadian Economic Policy Since the War* (Montreal: Canadian Trade Committee, 1965).

exports in key sectors of the economy threatened to drag the country into depression. Underlying these qualifications was Howe's view that government intervention should only be considered when private enterprise demonstrated a clear inability to sustain high employment levels or a prosperous economy. Finally, though *Employment and Income* did commit Ottawa to counter-cyclical budgeting, the white paper also upheld the importance of balanced budgets and manageable government debt. The unresolved tension between Keynesian and Gladstonian economics indicates Mackintosh knew that the King Cabinet was uncertain whether the government should attempt to correct business cycles.

Whichever disagreements between the advocates of strict reconversion and reform the white paper either exposed or downplayed, *Employment and Income* was equally notable for highlighting a general consensus among decisionmakers about the aims of reconstruction policy. In speaking of the government's duty to provide Canadians with proper income and employment, the white paper underscored that reconstruction policy aimed to secure Canada's return to liberal-democratic capitalism by protecting individuals' personal economic security and standard of living. As the title of the document indicated, Canadians' acceptance of a reestablished market economy was predicated on a feeling that their wartime gains were being guarded. While policies outlined in the paper were geared towards the rapid reestablishment of a capitalist system, the document's rhetoric was meant to ease the public's fears of peacetime dislocation, destitution, and depression. Put differently, the white paper aimed to confront the threat to Canada's organizing ideologies by eliminating the source of that threat: the public's lingering belief that peace would mean a return to the economic conditions of the 1930s

or a repeat of the economic downturn that followed the First World War. Canada's national security was to be protected by making Canadians feel that their personal economic security was secure. Seen from this vantage point, *Employment and Income* encapsulated the securitized protection of Canada's organizing ideologies. The paper was written by one of the government's chief reformers, reinforcing the extent to which the protection of these organizing ideologies was an objective shared across the upper echelons of the King administration.

Few Canadians read the white paper, despite its being largely written for their benefit. Both the press and public were occupied with other matters when the document was published.¹¹⁹ American President Franklin D. Roosevelt died shortly after the white paper was released distracting most Canadians from reconstruction policy announcements. By mid-April 1945, moreover, after nearly six years of war, an Allied victory over the Nazis was imminent. Finally, on 7 May 1945, news of the official German surrender was broadcast; the war in Europe was over. Fighting continued in the Pacific, but an Allied victory over Japan was also within reach. For Canadians and their Allies it was a time for celebration. All this meant that Canadians' attention was drawn away from reconstruction policy and the details of postwar planning.

With a complete end of hostilities close, the reconstruction debate entered its last throes. Over the next three months, an election would determine whether the Liberals would stay in power and oversee the reconversion program and transitional stabilization measures they had inaugurated. Reformers, meanwhile, would have a final chance to advance policies they deemed vital to the long-term health of the Canadian economy.

¹¹⁹ Mackintosh, "White Paper," 11. For a summary of the press' varied reaction to the white paper, see LAC, RG2, vol. 35, file C-20-5, "Wartime Information Board: Press reaction to the white paper, April 12 to May 10, 1945," 10 May 1945.

3.3) Further Reform Blocked, Summer 1945

On 11 June 1945, the King Liberals were reelected with 125 seats. It was a bittersweet win. Many victorious Liberal candidates were nearly defeated and King lost his own riding. The CCF received fifteen percent of the popular vote and won a total of 28 seats, a good showing compared to the eight seats and eight percent of the popular vote they garnered in 1940. Socialism was kept at bay, but the CCF was making gains. With a great number of members in the House of Commons, the CCF would be better positioned to criticize the government's economic policies during the transition period, stoke public fears of a possible economic downturn, and proclaim the superiority of a permanently planned economy. The Liberals, furthermore, had run an uncharacteristically leftist campaign to stay in power. Had Canadians fully trusted the free market to protect their standards of living, the Liberals' promise of a New Social Order would have been unnecessary. This indicated that Canadians' support of liberal-democratic capitalism was fragile, and that a poor management of reconstruction and a weak postwar economy might push the public back to the socialist party during the next election. The struggle to secure Canada's organizing ideologies was far from over. But with the election settled, the King Liberals and senior civil service could devote greater attention to reconstructing a stable economic base and reestablishing a liberal-democratic market economy.

Topping the DMS/DoR agenda in the summer of 1945 was an acceleration of industrial decontrol and reconversion. It was also deemed important to better inform the business community about the pace of reconversion and warn them against complacency. In a speech to the Toronto Board of Trade Club, WICB chairman J. Gerald Godsoe told

his audience that “The task of reconverting smoothly is next in importance only to winning the war.”¹²⁰ To those anxious to raise prices and gain better access to supplies, he cautioned that “While our controls should not, and will not, be maintained longer than is necessary, neither must they be removed in a wholesale and indiscriminate manner...Any program followed, because of continuing military and essential civilian needs, must be flexible and the relaxations gradual.” And to those who had grown accustomed to the guaranteed sales, capped wholesale prices, and planned supply distributions, Godsoe was unequivocal that “Once the control is removed, it becomes the privilege and the responsibility of the individual once more to seek his own supplies, his own markets, and to plan his own production –in short, to fend for himself- just as he was accustomed to do in days of peace.” Any who doubted the seriousness, determination, and impact of DMS/DoR’s efforts to reconvert Canada to a capitalist ordering were put on alert.

The WPTB greeted the victory in Europe and Liberal reelection by reminding the King Cabinet of the dangers of postwar inflation and the necessity of retaining a firm grip on prices, wages, and the cost of living.¹²¹ The Board emphasized that legislation to extend the emergency powers of the federal government would be needed once the War Measures Act ceased to apply. Without these emergency powers, the WPTB’s stabilization policies would be subject to judicial review and reversal. In addition, the WPTB stressed that the lessons of the First World War must not be forgotten. Inflation increased at the fastest rate after the First World War was over. The transition period would be a critical time for the stabilization program. Even though labour would pressure

¹²⁰ LAC, RG2, vol. 119, file W-32, “J. G. Godsoe speech to Board of Trade Club,” 23 April 1945.

¹²¹ LAC, RG19, vol. 388, file 101-102-38, “Constitutional and economic problems of the Wartime Prices and Trade Board during the transition from war to peace,” 15 June 1945.

the government to remove the wage ceiling, farmers and manufacturers would call for the right to charge more for their goods, and the public would be tired of rationing and simplified products, the government would have to stand firm. Price and wage relaxations and other decontrols, such as those on rents, would have to be gradual and carefully coordinated. Similarly, subsidies on agricultural products would need to be retained until their upward pressure on the cost of living lessened. Above all, the WPTB sought to solidify the understanding that stabilization policies could only be slowly rescinded and that anti-inflationary controls should be the last to go. Only once the threat of inflation was sufficiently weakened and the vulnerability of the economic base to inflationary pressures effectively reduced could stabilization measures cease.

For reformers, the early summer of 1945 was a preparatory time. In August 1945, the Dominion-provincial conference they had called for would take place and the reformers, along with the minister of health and welfare, Brooke Claxton, took it upon themselves to draft the federal government's proposals. In fact, Claxton and Alex Skelton, now an economic analyst with DoR, had been working on these proposals since the winter.¹²² In line with the reformers' earlier recommendations, in March 1945 Skelton argued that the Dominion should aim to secure a constitutional amendment centralizing direct taxation at the federal level. To convince the provinces of the necessity of federal direct taxation, the premiers would be reminded of the heavy debt burden the Dominion had incurred during the war. The federal government would also demonstrate that centralized direct taxation was vital for the funding of family allowances and veterans

¹²² David Slater, "Colour the Future Bright: The *White Paper*, the Green Book and the 1945-1946 Dominion-Provincial Conference on Reconstruction," in Greg Donaghy, ed. *Uncertain Horizons: Canadians and Their World in 1945* (Ottawa: Canadian Committee for the History of the Second World War, 1997), 197.

benefits, and for the advancement of additional social welfare initiatives, including universal health insurance and old age pensions. Furthermore, the provinces would be told that direct tax centralization was a prerequisite for the correction of business cycles and an effective use of shelved public investments. Simply put, the Dominion would make the case that the long-term health of the Canadian economy depended on the provinces' willingness to surrender their direct taxation prerogative. In exchange for their acquiescence, the provinces would receive generous cash transfers from the Dominion. Indeed, these cash transfers would give the provinces more revenue than they would earn collecting direct taxes on their own.¹²³ From the reformers' perspective, constitutional change in the field of direct taxation was both essential for the realization of their objectives and beneficial to the provinces.

King recognized that the centralization of direct taxation was necessary. As Ilsley regularly stated in Cabinet meetings, the financial burdens that the Dominion had accumulated during the war, the costs associated with the Keynesian policies of 1944, and expected future expenditures on foreign aid meant that the federal government would be insolvent unless the wartime tax structure was retained. Yet the prime minister failed to see why a constitutional amendment was required to keep the wartime tax structure in place. A simpler solution would be to negotiate a permanent, peacetime variant of the 1942 federal-provincial Wartime Taxation Suspension Agreements. Cabinet sided with King. In June, Mackintosh, acting as deputy minister of finance while Clark recovered from an illness, was instructed to rework Skelton's scheme.¹²⁴

¹²³ *ibid.*, 200.

¹²⁴ *ibid.*

Titled *Proposals of the Government of Canada* but best known as the 'Green Book',¹²⁵ Mackintosh's version of the federal proposals focused on three topics: public investments and counter-cyclical budgeting, social security policies, and non-constitutional arrangements to centralize direct taxation and institute transfer payments to the provinces. Compared with *Employment and Income*, the Green Book's discussion of public investments was assertively reformist. While the encouragement of private investment still ranked as the government's first objective, the Green Book stated that "In the postwar period there will be ample scope for a far-sighted programme of public investment," which meant "devising a sound and consistent programme of public improvements which will expand the productive wealth of the community and widen the opportunities for enterprise and employment." Similarly, in contrast with the white paper's cautious endorsement of counter-cyclical budgeting, the Green Book was adamant that "The modern government budget must be the balance wheel of the economy; its very size to-day is such that if it were allowed to fluctuate up and down *with* the rest of the economy instead of deliberately *counter* to the business swings it would so exaggerate booms and depressions as to be disastrous."

With respect to social security, the Green Book followed the Liberal election platform and Skelton's earlier draft by arguing for the creation of a universal health insurance program and an expansion of unemployment assistance and old age pensions. The expansion of unemployment assistance and old age pensions were given a reformist flavour in the Green Book. According to the Green Book, stretching the coverage of old age pensions would inject over \$200 million of purchasing power into the postwar

¹²⁵ Canada, Dominion-Provincial Conference on Reconstruction, *Proposals of the Government of Canada* (Ottawa, 1945).

economy, and enlarging unemployment insurance would sustain the spending habits of several additional categories of workers and employees who might lose their jobs.

The Green Book used a variety of arguments to convince the provinces that the centralization of direct taxation was both necessary and advantageous to the federation. The provinces were warned of the folly of reviving the prewar tax system and told of the larger revenues they would enjoy under centralization. They were also reminded that the Dominion could not pay Canada's war debts or afford existing and new social welfare programs, or correct "the whole business cycle," let alone fund public investments, without a permanent right to collect direct taxes.

Mackintosh's Green Book was a last effort to promote Keynesian policies before the war in the Pacific ended. Working directly for Cabinet, Mackintosh was free from the constraints imposed by Howe at DoR, giving him sufficient leeway to expand on the few reformist proposals included in *Employment and Income*.¹²⁶ When Cabinet approved the Green Book, the reformers held out hope that they might retake a measure of control over reconstruction policy and postwar economic planning.

Unfortunately for the Keynesians, Cabinet's acceptance of the Green Book did not imply an embrace of the reformist agenda. What Cabinet sought above all was a provincial concession on centralized taxation.¹²⁷ The rest of the Green Book proposals, including public investments, counter-cyclical budgeting, and the expansion of social security, were an afterthought for King and his ministers. Indeed, it is possible that the King Cabinet saw the Green Book's reform policies merely as a means of convincing the provinces of the need for an agreement on centralized taxation. If the provinces opposed

¹²⁶ Slater, "Colour the Future Bright," 197.

¹²⁷ *ibid.*, 201-204.

the federal proposals, the only concession the King government would truly fight to gain would be an agreement on centralized taxation.

The Dominion-provincial conference began on 6 August 1945, the same day the United States dropped an atomic bomb on Hiroshima, the first of two atomic strikes that brought an end to the Pacific war nine days later. From the outset, the premiers of Ontario and Quebec, George Drew and Maurice Duplessis, rejected both the letter and spirit of the Green Book proposals. Both men argued that the federal and provincial jurisdictions upheld by the British North America (BNA) Act should be kept in place and perhaps reinforced.¹²⁸ Premiers Ernest Manning of Alberta and John Hart of British Columbia greeted the federal proposals with “scepticism and indifference.”¹²⁹ Only the premiers of Saskatchewan and Manitoba expressed support for the Green Book proposals. As the first round of talks progressed, federal and provincial negotiators realized that consensus was at best elusive. Consequently, the conference was temporarily adjourned and a Dominion-provincial committee created to prepare for a second meeting to be held in the new year.

Tax centralization eclipsed the Green Book’s reform and social security proposals as Dominion-provincial negotiations continued in the fall of 1945 and winter of 1946.¹³⁰ Any likelihood that Keynesianism would return to the front of reconstruction planning evaporated. By the early spring of 1946, reconversion was nearing completion, and stabilization had become the primary reconstruction concern of the King government. Worse still for Keynesianism, Howe’s predictions about postwar employment were proving correct, nullifying the case for further reform. Finally, in May 1946, King

¹²⁸ *ibid.*

¹²⁹ *ibid.*, 202.

¹³⁰ *ibid.*, 205.

indefinitely suspended the Dominion-provincial conferences; there would be no further discussion of the Green Book's reform policies. The reconstruction debate was over. Cabinet, however, went ahead with tax centralization, forcing the provinces either to accept the federal government's encroachment in exchange for cash transfer or impose a second set of provincial direct taxes on their constituents. By the end of 1946, all provinces opted to sign agreements with Ottawa that transferred responsibility for direct taxes to the federal government.

Conclusion

From January 1943 to the summer of 1945, Canadian decisionmakers debated which reconstruction policies were required to ensure a stable and prosperous postwar economic base, protect Canadians' standard of living, and preserve the public's fragile faith in liberal-democratic capitalism. Reformers argued that the postwar economic environment would be unstable, prone to recession and depression, and saddled with high levels of unemployment unless the federal government crafted policies, such as public investment projects, counter-cyclical budgeting and social security initiatives, to boost aggregate demand and balance the business cycle. Strict reconversionists, on the other hand, held that fears of postwar unemployment and insufficient aggregate demand were exaggerated, provided the private sector was given sufficient incentives to invest and rapidly reconvert. The primary focus of reconstruction, reconversionists contended, should be the return of war industries to civilian production, the rescinding of government controls and other forms of intervention, and the encouragement of private investment. To the overseers of the government's stabilization program, reconstruction

had to involve the continuation of anti-inflationary policies, regardless of whether strict reconversion or reform dominated postwar planning. Were the stabilization program prematurely weakened, inflationary pressures could drag the Canadian economy into recession after a brief period of prosperity, endangering both the economic base and Canada's organizing ideologies.

Initially, reform policies were at the forefront of reconstruction planning. In 1943 reformers such as W.C. Clark, W.A. Mackintosh, and R.B. Bryce proposed measures designed to increase Canadians purchasing power and swell postwar aggregate demand. The following year, these proposals were translated into legislation that instituted family allowances, war service grants, and a national housing program. In January 1944, the Liberal party made the reformists' discourse their own, a manoeuvre that seemed to presage the adoption of further reform policies. By late 1944, however, the reform momentum was stalled. Public investments, a key reform initiative, were blocked by Cabinet. In addition, other reform prescriptions, including counter-cyclical budgeting, depended on a permanent centralization of direct taxation at the federal level of government, a controversial idea that required the consent of the provinces. Since Dominion-provincial negotiations on tax centralization would not take place until the end of hostilities, the reformers were temporarily hamstrung.

While the reformers waited for constitutional change, strict reconversionists pursued their reconstruction measures unobstructed. From the fall of 1943 on, reconversionists at the department of munitions and supply started organizing industrial decontrols, war contract cancellations, and the return of industries to civilian manufacturing. In June 1944, the government also announced that tax incentives for

private capital investments. By year's end, Cabinet's chief advocate of strict reconversion, C.D. Howe, was named minister of the newly created department of reconstruction. With Howe at the helm, the direction of reconstruction planning was distinctly reconversionist, though the minister made some concessions to the reformers when a white paper on reconstruction policy was published in April 1945. Equally free from constitutional constraints were the advocates of stabilization. Beginning in January 1944, Donald Gordon and the WPTB commenced preparations for postwar stabilization measures that aimed to both assist industrial reconversion and contain inflationary pressures, a complicated feat that required careful planning and cooperation with DMS. By the late spring of 1945, the WPTB had a comprehensive post-hostilities stabilization strategy in place, making anti-inflationary policies second only to reconversion in the government's reconstruction priorities. Finally, in August 1945, a Dominion-provincial conference was held and reformers were given a last opportunity to forward their lingering proposals. Jurisdiction jealousies hampered consensus at the conference and the reform proposals were gradually marginalized. Tax centralization agreements were eventually concluded between the federal government and the provinces, though the reform policies used to help sell centralized taxation were forgotten.

In sum, while significant reform policies were introduced during the 1944 legislative session, by the fall of 1944 the duty of maintaining a stable and strong economic base, and in turn protecting Canada's organizing ideologies, was shouldered by strict reconversionists and advocates of stabilization. The dual threats of inflation and unemployment would be confronted by rapidly reconverting war industries, which would create new jobs and alleviate shortages that caused inflationary pressures. Those

inflationary pressures that remained while industry was reconverting would be addressed by maintaining stabilization measures in peacetime until the vulnerability of the Canadian economic base to inflation was sufficiently reduced. If the postwar transition unfolded as the proponents of reconversion and stabilization hoped, industry would reconvert within two years, after which the economic base would be sufficiently robust to absorb the inflation pressures that would accompany a complete removal of all stabilization measures. If, on the other hand, the transition went array, the inflationary pressures produced by rapid reconversion would be too great, sparking a recession or depression, harming the economic base, and undermining the public's tentative trust in the free market.

The next chapter recounts the challenges, uncertainties, and successes reconversion and stabilization encountered when directing the postwar transition in 1945-46.

Chapter 4

Implementing Reconstruction Policy, 1945-1946

Canada's reconstruction debate was settled before peace came in August 1945. Though they had pioneered the introduction of aggregate demand boosting measures in 1944, Keynesian reformers failed to convince Cabinet that a large public investment program was needed to re-establish a stable and prosperous postwar economic base. The reformers' other major initiative, counter-cyclical budgeting, seemed poised to suffer the same fate. As the reformers' influence waned, reconstruction policy shifted in the direction of the strict reconversionists. Personified by the minister of reconstruction, C.D. Howe, the strict reconversionists were determined to return Canada rapidly to a free market after the war.¹ To do so, the reconversionists implemented a number of measures in 1944, including the gradual cancellation of war contracts, tax incentives to spur private investment, and industrial decontrols. Once hostilities ended in August 1945, the reconversionists accelerated these efforts to insulate the economic base against recession and unemployment, and to hasten the retrenchment of Canadian capitalism. There was no second-guessing the reconversionist approach from this point forward.

Nevertheless, even ardent reconversionists recognized that their efforts would need to accommodate anti-inflationary measures. If inflation climbed too high too quickly, the wave of aggregate demand would collapse, endangering Canada's economic security by stalling essential investments, severely devaluating national income, and massively increasing the ranks of the unemployed. Worries about a postwar inflationary

¹ Canada, Department of Trade and Commerce, *Investment and Inflation, with Special Reference to the Immediate Postwar Period, Canada 1945-1948* (Ottawa, 1949), 174.

spiral, moreover, continued to highlight the relationship between reconstruction policy and Canadian political-economic security. Despite their optimism about the potential of the postwar economy and of reconversion's ability to restore a vibrant free market system, decisionmakers understood that Canadians' livelihood and fragile faith in capitalism had to be protected. Were inflation permitted to erode the public's standard of living, savings, and personal economic security, support for socialist or statist forms of political-economic ordering could increase to levels equal to or higher than those of 1943. Indeed, notwithstanding whether long-term economic prospects warranted such disillusionment on Canadians' part, decisionmakers understood that public perceptions of a failing reconstruction effort might be sufficient to make people yearn for the reintroduction of government controls. As Peter McNinnis notes, decisionmakers were aware that "state-intervention was habit forming."² Accordingly, the government of William Lyon Mackenzie King grasped that the reconstruction of a liberal-democratic capitalist system needed to succeed in both an objective and subjective sense. Simply put, the postwar market economy had to both work, and look like it was working. As expressed by Douglas Abbott shortly before he became minister of finance in late 1946:

Those of us who believe in the economic system under which we have achieved great things must make it our job to see that the system works. We must see that the necessary changes and modifications are made to meet changing times and conditions. We must demonstrate by results that it is the system best suited to our needs, whatever may be the needs or preferences of some other people in some other part of the world. What is of primary importance to us, I think, is to see that we prevent the recurrence of a real economic depression, because it is under such conditions that people become discouraged and impatient, lose faith in themselves and their leaders, and are willing to try anything which seems to offer a prospect of relief from their miseries.³

² Peter S. McNinnis, *Harnessing Labour Confrontation: Shaping the Postwar Settlement in Canada, 1943-1950* (Toronto: University of Toronto Press, 2002), 94.

³ Library and Archives Canada (LAC), MG32, series B6, vol. 15, "Address by the Honorable Douglas Abbott to the Canadian Club of Victoria," 30 October 1946.

This chapter examines the implementation of reconstruction policy between 1945-1946. The chapter begins with an overview of the challenges and uncertainties the government faced when contemplating reconstruction between 1945-1946, and of the extra-ordinary securitizing measures the King Cabinet maintained to help ensure the success of reconstruction throughout the transition period. Next, the chapter explores how the Canadian government balanced the demands of its reconversion and stabilization programs, how the government read and reacted to postwar economic trends, how the government overcame obstacles to rapid reconversion, and what measures the government took to reassure the public that their personal economic security was being safeguarded.

4.1) Reconstruction as Challenge and Emergency Condition

In retrospect, Canadian postwar reconstruction might seem a relatively simple, if not mundane, affair.⁴ Compared to the troubles faced by war-ravaged European and Asian states, this description is fair. Aside from military casualties, Canada emerged from the Second World War unscathed. While Europeans and Asians faced the daunting task of rebuilding entire national infrastructures and economies, Canadian reconstruction involved the preservation and reshaping of an already flourishing economy. Yet this contrast with European and Asian reconstruction efforts masks difficulties that Canadian decisionmakers encountered when implementing reconstruction policy, and the concerns

⁴ Robert Bothwell, Ian Drummond and John English, *Canada, 1900-1945* (Toronto: University of Toronto Press, 1987), chapter 23.

they felt about a possible economic downturn, such as Canada experienced following the First World War.

From the outset, Canadian decisionmakers recognized that reconstruction would be taking place in a highly volatile social and economic environment. Unless reconstruction was handled with care and caution, the very policies meant to continue and extend Canada's wartime prosperity could drag the postwar economy into a period of recession and decline.⁵ Prime minister King, for instance, feared that an economic disaster was looming several times throughout the reconstruction period.⁶ More importantly, the possibility of economic troubles consistently fuelled concerns that Canada's economic base and organizing ideologies would be imperiled. Reconstruction was neither an easy feat nor a set of policies designed to address the common, everyday economic problems of the Canadian state. Rather, reconstruction was a formidable obstacle, and the transition period was recognized as a state of emergency requiring the retention of extra-ordinary powers by the executive branch of the Canadian government.

A first challenge confronting decisionmakers was encouraging businesses to invest in industrial reconversion, expansion and modernization in an unpredictable time. Industrial reconversion, expansion, and modernization were deemed essential to reconstruction for several reasons. Above all, private investment was necessary to keep Canadian employment levels high and stable in both the short and long-term.⁷ High and stable employment, meanwhile, would sustain incomes and standards of living, and

⁵ LAC, RG19, series E-1(d), vol. 2733, "Inflation dangers pamphlet authored by C.H. Herbert of WPTB," undated.

⁶ LAC, William Lyon Mackenzie King Diary, 12 and 13 September 1945; 1 and 23 February 1946; 23 April 1946; 7 August 1947.

⁷ LAC, RG2, series 18, vol. 78, file E-20-6, "Current economic conditions in Canada: Statement No.3" December 1945.

maintain a steady infusion of aggregate demand in the Canadian economy. Next, industrial reconversion, expansion, and modernization would help alleviate shortages.⁸ Addressing the shortage problem was a top priority since Canadians were anxious to spend their savings and incomes, and because shortages exacerbated inflationary pressures. In fact, throughout the transition period, the King government was convinced that higher production levels were the key to curbing the inflationary pressures caused by shortages. While government controls could prevent price increases and speculative trading of scarce goods, controls were inherently inefficient and contrary to the law of supply and demand that ordered free markets. Moreover, since one reconstruction goal was to withdraw government gradually from the economic affairs of individuals and firms, decisionmakers were eager to decontrol goods as rapidly as a sound stabilization policy would allow.⁹ For all these reasons, facilitating and increasing industrial output through reconversion, expansion, and modernization was reconstruction's primary objective. War contract cancellations and double depreciation allowances had initiated the effort to spur private investment in 1944, though more needed to be done to convince the private sector that large capital investments were worthwhile and wise.¹⁰ In particular, the King government believed that tax cuts, low interest rates, and flexible price adjustments were necessary to stimulate capital investment during this period of uncertainty.

Yet private investment intensified inflationary pressures. Industrial reconversion, expansion, and modernization depended on scarce building materials and skilled

⁸ LAC, RG19, vol. 388, file 101-102-38, "D. Gordon to J.L. Ilesley re decontrol policy," 4 January 1946.

⁹ LAC, MG32, series B6, vol. 15, "D. Abbott address to Commercial Travelers' Association," 21 December 1945.

¹⁰ Canada, Department of Finance, *1945 Budget Speech* (Ottawa: King's Printer, 1945)

construction workers. These same building materials and skilled workers were also required to deal with Canada's housing shortage, which the King government had promised to address with the 1944 National Housing Act. As a result, industrial reconversion, expansion, and modernization schemes aggravated the same inflationary pressures they were meant to calm. Similarly, tax cuts and low interest rates designed to stimulate investment introduced more money into the economy, resulting in higher levels of demand for scarce goods and more acute inflationary pressures. Price increases the government sanctioned to encourage greater production heightened inflationary pressures as well. Private investment in the transition period was the long-term solution to, but a short-term cause of, Canada's inflationary difficulties.

While the Canadian government could adjust anti-inflationary controls to balance measures designed to spur private investment and stabilize the economy, there were several sources of inflation that proved harder to influence. Dealing with these particular pressures was a second significant reconstruction challenge. Chief among these intractable inflationary pressures were those brought on by European relief. In the months and years following the war, Europe lacked a sufficient supply of nearly all essential goods, including food, textiles, and building and manufacturing materials. Since Canada depended on European export markets, helping Europe recover and rebuild was critical. In practice, however, this involved sending and selling goods to European states that were scarce in the Canadian market. Aiding Europe worsened those shortages plaguing the Canadian economy, further exacerbating inflationary pressures.

High American prices were another unavoidable inflationary pressure. American prices affected the Canadian inflationary situation in two ways. First, war did not slow

Canadian purchases of American goods, many of which were vital for industrial reconversion, expansion, and modernization. Paying higher prices for these foreign goods raised production costs for Canadian firms, leading them to seek price increases for their products.¹¹ Secondly, Canadian sellers were tempted to sell their scarce goods in the United States, which reduced the amount of these goods in the Canadian market, further exacerbating the inflationary effect of shortages.¹² The King government tried to mitigate these Canada-US price imbalances by continuing a variety of import/export controls and subsidies. Yet Canada's dependence on American imports and rapid price increases in the United States ensured that Ottawa's efforts had only limited effects. In keeping with the overall policy of lessening the government's involvement in the economy, moreover, the King government continually sought ways to weaken or remove import/export controls and subsidies.

Next, Canadians' built-up savings, greater purchasing power, and appetite for goods of all sorts fuelled inflation. Like private investment, the King government saw that Canadians' spending power would drive reconstruction, stabilize the economic base, and sustain a re-established market economy. Hence, the government chose to feed Canadians' purchasing power with income tax reductions during the transition period. However, the government was equally aware that the flood of purchasing power could overheat the economy while shortages remained, especially if unscrupulous individuals engaged in speculation or turned to black markets. Of special concern was the effect of purchasing power and unscrupulous behaviour on goods included in the cost-of-living

¹¹ LAC, RG2, series 18, vol. 78, file E-20-6, "Current economic conditions in Canada: Statement No. 1," October 1945

¹² *ibid.*

index, such as food and clothes.¹³ If the cost-of-living climbed too quickly and outpaced increases in wages and salaries, purchasing power would diminish and Canadians' ability to buy durable manufactured goods would fall – signs that the economy was heading towards a recession. Furthermore, if Canadians felt that their cost-of-living was surpassing their purchasing power, there was a danger that they would demand a re-introduction of strict controls, a policy that would stall reconversion, economic growth, and run contrary to the ultimate aims of reconstruction. Public feelings that reconstruction was harming their standard of living might spur discontent with reconstruction and stir social unrest. As a result, the King government tried prudently to decontrol items on the cost-of-living index. However, to encourage the private sector to produce these goods, the government realized that price increases were equally necessary, since firms would rightly want to manufacture products that turned a profit.

Finally, the impact of wages on inflation was a problem that the King government was forced to address during the early transition period. As during the war, those responsible for the stabilization program argued that wage and price increases were linked. If wages were permitted to substantially increase, production costs would mount and firms would attempt to offset these higher costs by raising the prices of their goods. Were this to occur across several sectors and regions, inflation would scale to dangerous heights, as happened before strict wage controls were imposed in 1940-1941. While the government could technically prevent firms from increasing their prices by maintaining strict controls on their goods, doing so would restrict profits and perhaps prompt businesses to delay or abandon planned capital investments. But the King government knew that holding down wages would antagonize workers and organized labour. Freed

¹³ LAC, RG19, vol. 388, file 101-102-38, "D. Gordon to J.L. Ilsley re price control," 30 August 1945.

from the moral restraint demanded by the national war effort, and seeing the immense financial incentives business and industry were being given to reconvert, expand, and modernize, labour claimed that wage controls were preventing workers from ‘getting their fair share’ of the peace dividend.¹⁴ More worrisome, labour could resort to strikes to force the government to abandon wage controls and to extract higher wages from their employers. A large number of strikes, in turn, would slow production lines, exacerbate shortages, and intensify inflationary pressures.¹⁵ Ottawa thus faced a dilemma: wage controls were required to curb inflation, but strikes against the wage ceiling might cause an equal or greater degree of inflation. However the federal government dealt with wages, greater inflation seemed sure to follow.

Reconstruction forced the King government to attempt several delicate balancing acts. As Donald Gordon warned late in the war, reconstruction involved the implementation of policies that worked at cross-purposes and aimed at divergent short-term ends. And while this characterization may describe the everyday economic policies of states, the consequences of misreading the trends during the reconstruction period threatened to throw the economy into recession, endangering the economic base and imperiling Canada’s tentative return to liberal-democratic capitalism.

Due to the complexity of reconstruction and the dangers associated with mishandling the state’s economic affairs during the transition period, in the summer of 1945 the Wartime Prices and Trade Board (WPTB), department of munitions and supply (DMS), and department of justice advised the King Cabinet that legislation should be

¹⁴ LAC, RG2, series D-19, vol. 70, file D-15-2, “Statement on the meeting of the Union Delegation with the Prime Minister,” 11 September 1945.

¹⁵ LAC, MG27-III B20, vol.146, file 89-2, “C.D. Howe to Citizen’s Forum,” 16 October 1945.

passed to permit Cabinet to retain emergency executive powers once the war ended.¹⁶ Unless such legislation was enacted, existing orders-in-council would no longer be law and Cabinet would lose the authority to impose new orders-in-council, since the powers of the War Measures Act expired shortly after hostilities ceased. Among the orders-in-council that would no longer apply were those related to the stabilization and reconversion programs, including price and wage ceilings, comprehensive import/export and foreign exchange controls, and expanded taxation powers. Without legislation extending the emergency powers of the executive, the federal government would be unable to effectively contain inflationary pressures or promote private investment. The government's ability to oversee labour relations in vital industries would be weakened. With labour unrest likely, retaining the power to order compulsory arbitration was seen as essential to preventing both workers and employers from exploiting the uncertainty of the transition. In addition, if the wartime labour code, P.C. 1003, was allowed to expire, any hope of peaceful industrial relations during reconstruction would be shattered because labour's right of collective bargaining and union recognition would disappear.

Considering each of these factors, the King Cabinet was told by its interdepartmental committee on wartime controls that "the emergency arising out of the War will not end when actual hostilities cease, or even when a formal declaration of peace comes to be made." In fact, Cabinet was informed, "The extraordinary measures necessary during the war period cannot suddenly be revoked without serious dislocation of the national economy." Hence, "If the national economy is to be safeguarded during the transition period, it will be necessary for Parliament to enact a statute conferring

¹⁶ LAC, RG28, series A, vol. 333, file 196-40-14-2, "Report of interdepartmental committee on wartime controls," July 1945; RG19, vol. 3976, file E-3-0, "F. Varcoe to A.D.P.Heeney," 14 July 1945.

general authority on the Governor in Council to legislate during the transition period as was provided by the War Measures Act.”¹⁷

Cabinet accepted that the transitional period should be treated as a state of emergency and the wartime powers of the executive should be extended. The stakes and obstacles surrounding reconstruction were too significant to justify a weakening of the executive’s prerogatives; the success of reconstruction was unquestionably a matter of national security. In December 1945, the King government tabled the National Emergency Transition Powers Act before Parliament. The Act reiterated and amplified the government’s securitized understanding of reconstruction and economic policy in the transition period. “It is necessary,” the preamble declared

for the peace, order, and good government of Canada that during the period of transition to normal from the exceptional conditions, with the attendant dangers and responsibilities for the nation as a whole, acts and things done under and authorized and regulations and orders made under the War Measures Act be continued in force and that the Governor in Council be authorized to do and authorize during said period such further acts and things and make such further orders and regulations as he may by reason of the national emergency resulting from the war deemed necessary or advisable for the security, defence, peace, order and welfare of Canada;¹⁸

Of the eight areas where the Act saw a need for a continuation of extra-ordinary executive powers, seven pertained to fiscal, economic, labour, or stabilization policy. Coming into force on 1 January 1946, the Act was set to expire within one year. However, the Act also stipulated that the executive powers could be renewed for another years if approved by Parliament. With this clause, the government signaled that the preservation of a stable economic base and reconstitution of a self-sufficient market would determine when the national emergency had passed.

¹⁷ LAC, RG28, series A, vol. 333, file 196-40-14-2, “Report of interdepartmental committee on wartime controls,” July 1945;

¹⁸ LAC, MG26, series J4, vol. 420, “National Emergency Powers Act,” 28 August 1945.

King and his ministers understood that the retention of emergency executive powers delayed reconstruction's aim of returning Canada to liberal-democratic rule. Yet they also recognized that the reconstitution of a stable liberal-democratic regime depended on a careful stewardship of the Canadian economy during reconstruction. Limiting Canadians' liberties in the near-term, Cabinet believed, served the long-term goal of grounding those same liberties on a solid foundation. As with the other aspects of reconstruction, Cabinet accepted that some short-term policies and objectivities would run at cross-purposes, and require careful balancing, to ensure that the final, shared end of reconstruction was attained.

4.2) From Concern to Enthusiasm, September 1945 - February 1946

Feelings about the likely success of the Canadian reconstruction program vacillated between the fall of 1945 and the spring of 1946. During the first months of peace, many members of the King government worried that reconstruction would be a slow, burdensome process. Though Howe was convinced that an era of prosperity could be at hand if government encouraged private investments and an orderly transition, the prime minister and other ministers and officials saw several sources of instability and stagnation on the horizon. Private enterprise appeared hesitant to invest in industrial expansion and modernization. Demobilization and war industry layoffs seemed poised to flood the job market, leaving many unemployed and bitter. Labour unions expressed their discontent with the government's reconstruction plans and wage policies. Rapid decontrol and strikes in the United States threatened to derail Canada's stabilization program. Yet, over the course of seven months, the government's mood changed. By the

early spring of 1946, unemployment was rare, reconversion was close to complete, and inflation and labour unrest appeared to have been contained. Members of the King government believed that the problems of the postwar transition were passed. Their assessments were premature.

Fostering a favourable environment for rapid reconversion and high private investment was the King government's top priority in late 1945 and early 1946. Officials from DMS and the department of reconstruction (DoR) had worried about industry's willingness to reconvert and invest in capital projects since 1944. Although both departments were certain that postwar economic conditions would be favourable to investment, segments of the private sector expressed unease about spending limited funds on expansion and modernization after the war. This unease failed to dissipate when hostilities ceased. Insofar as most economic forecasts had predicted stagnation and recession after the war, businesses were inclined to wait for signs of economic growth before investing their heavily taxed profits into capital projects.¹⁹ Officials from DoR and the finance department, however, realized that the behaviour of these prudent firms threatened to slow reconversion, exacerbate shortages, contribute to unemployment, and perhaps infect other, more positive firms with a cautious investment attitude. While double depreciation policies had helped many firms to reconvert and invest, additional measures were required to cut this pessimistic knot running through the Canadian business community.

The tool chosen to entice firms to expand their capital investments was corporate tax reduction. Lowering corporate taxes would encourage investment in two ways. First, lowering corporate tax rates would free funds that business could use to invest. Second,

¹⁹ *1945 Budget Speech.*

lower corporate taxes meant that business would keep a greater percentage of the profits earned from their expanded facilities and production lines. With tax cuts, however, came the possibility of greater inflation. To prevent tax reductions and private investments from amplifying inflationary pressures, the King government recognized that lower taxes would need to be accompanied by less public expenditure. If government spending was cut while taxes were lowered, private investment would replace, rather than add to, the inflation associated with public expenditures. Cutting government spending, furthermore, was consistent with a key reconstruction objective: diminishing government's presence in the economic affairs of the Canadian state.

On 12 October 1945 finance minister J.L. Ilesley tabled the King government's first postwar budget.²⁰ Ilesley informed Parliament that the budget was designed to maintain high and stable incomes and employment for Canadians. In practice, this meant doing "what we can to reduce costs, restore incentives, encourage investment in the expansion of employing-capacity of our industries whether in small or larger enterprises and promote efficiency in production and export." Citing "widespread evidence that incentive is being stifled and that ordinary prudence in the making of business expenditures has been seriously weakened," the minister announced a forty percent cut in the Excess Profits Tax. This reduction, Ilesley claimed, would help combat lackluster private investment and industrial inefficiency. Income and sales taxes, however, were kept at their existing rates. These taxes were unrelated to private investment but helped curb inflation by moderating heavy consumer demands for scarce goods. To further curtail inflation while spurring private investment, government was not going to allow "its expenditures [to] compete with...demands for labour and materials, except for the

²⁰ *ibid.*

most urgent needs.” Public investments were no longer seen as merely unnecessary; they were now considered an impediment to rapid and stable reconstruction.

Beyond the policies announced in the 1945 budget, the King government encouraged private investment by continuing to issue special depreciations and keeping interest rates low to facilitate business loans. While it was recognized that an ‘easy money’ borrowing policy might exacerbate inflationary pressures, the King government was convinced that the best means of surpassing the inflationary threat was to spur production.²¹ As long as bank loans allowed businesses to expand, offer jobs, and produce more goods, more efficiently, the inflation they might cause was acceptable.

DoR’s studies of the Canadian economy from November 1945 to the end of January 1946 showed that the government’s investment incentive policies were having a positive effect on production and employment.²² While production and manufacturing were declining, the rate had leveled off. Similarly, though demobilization and war contract cancellations were increasing the number of unemployed, the number of jobs created was greater than those eliminated. The task at hand was thus to increase the total of jobs rather than sustain the number that had existed during the war. Inflation appeared moderate between the fall of 1945 and January 1946. Reducing corporate taxes and keeping interest rates low had not worsened Canada’s inflationary situation; shortages, mounting American prices, and high consumer demand remained the principal instigators of inflation when the new year began.

Fears of labour unrest and union discontent with the wage ceiling were the King government’s second source of concern from the fall of 1945 to January 1946. In late

²¹ *Investment and Income*, 19.

²² LAC, RG2, series 18, vol. 78, file E-20-6, “Current economic conditions in Canada: Statements No. 2-4,” November 1945 to January 1946.

August 1945, DoR reported that labour unions were likely to challenge the wage ceiling. Carl Goldenburg, senior labour adviser at DoR, warned that workers were unlikely to accept caps on their wages for much longer.²³ He expected that increases in the cost-of-living would soon surpass the income gains workers had earned in wartime, compelling unions to demand higher wages. Goldenburg admitted that he sympathized with labour on the wage question. But he also acknowledged that too steep a climb in wages would spark an inflationary spiral. The labour adviser suggested that the wage ceiling be slightly increased without being abandoned altogether.

Goldenburg's analysis was confirmed on 11 September 1945, when the prime minister and minister of labour, Humphrey Mitchell, met with fourteen union representatives to discuss organized labour's grievances.²⁴ King implored the union leaders to recognize that reconstruction required patience and a spirit of cooperation between labour, government, and industry. He also warned his guests that restraint on the wage front was necessary to keep prices down. The labour representatives were unreceptive. They accused the government of being unprepared for reconstruction and offering little in the way of job and wage protection. In addition, they stated that double depreciation and other reconversion incentives showed that the King Liberals were putting the interests of business ahead of those of the working class. While firms were seeing their taxation relaxed, workers' jobs were insecure, they remained under a restrictive income cap, and their right to organized was only upheld by a temporary order-in-council. Although Mitchell pleaded with the representatives to "for goodness'

²³ LAC, MG27-III B20, vol. 79, file s-2-7-1-3 C.P.R.B (38), "C. Goldenburg to C.D. Howe," 23 August 1945.

²⁴ LAC, RG2, series D-19, vol. 70, file D-15-2, "Statement on the meeting of the Union Delegation with the Prime Minister," 11 September 1945.

sake...give Mr. Howe a chance to get the country back on its feet,” both sides left the meeting knowing that the labour truce won with the implementation of P.C. 1003 was at an end. King, undoubtedly recalling the aftermath of the First World War, worried that his administration would shortly have to cope with a new wave of “social unrest.”²⁵

A day after King’s meeting with the labour leaders, workers went on strike at the Ford plant in Windsor.²⁶ While not a vital sector of the economy, when coupled with other smaller strikes this work stoppage at a major automotive plant fed the government’s growing concerns over the crumbling industrial peace.²⁷ Despite regular interventions by Mitchell, compulsory arbitration, and plans to use federal police to break the strike,²⁸ the Ford confrontation would last for five months. What finally settled the dispute was a formula derived by Ivan Rand, a Supreme Court justice the King government had appointed as an arbiter. The Rand formula allowed for the automatic collection of union dues, guaranteed union recognition, and the establishment of rights to medical, hospital, and life insurance for Ford workers.²⁹ Rand’s proposals set the bar for future labour dispute settlements.

Long before the Ford strike was finally settled, however, the King government dealt with its immediate repercussions. On 13 September 1945, a day after the strike started, Cabinet agreed to establish a standing House of Commons committee on

²⁵ LAC, WLMK Diary, 12 September 1945.

²⁶ David Moulton, “Ford Windsor 1945,” in Irving Abella, ed. *On Strike: Six Key Struggles in Canada 1919-1949* (Toronto: Lorimer, 1975); LAC. MG26 J4, vol. 419, “A.D.P. Heeney to prime minister,” 10 November 1945.

²⁷ See Canada, Dominion Bureau of Statistics, *Canada Year Book, 1946* (Ottawa: King’s Printer, 1946) for other strike figures.

²⁸ Judy Fudge and Eric Tucker, *Labour Before the Law: The Regulation of Workers’ Collection Action in Canada, 1900-1948* (Toronto: Oxford University Press, 2001), 284.

²⁹ Moulton, “Ford Windsor 1945,” 148.

industrial relations.³⁰ The committee would allow union leaders, government officials, and industry to voice their views about the state of Canadian labour relations. King, who proposed the formation of the committee, likely hoped that this forum would highlight ways to soothe industrial relations. All the committee accomplished, though, was to show how far apart the three groups were.³¹

Another means of easing the brewing labour crisis was suggested by the labour department in October 1945. Mitchell recommended that the wage control order be amended to allow wage increases of three percent and prevent unjustified wage reductions.³² Cabinet sent Mitchell's recommendation to an interdepartmental committee for review. Two months later, on 19 December, Cabinet received the report of the interdepartmental committee and accepted its recommendations. Recognizing the importance of appeasing labour while still maintaining an effective stabilization program, the report recommended that a five cent per hour increase in wages be permitted.³³ This amount was considered sufficient to satisfy workers without compelling businesses to increase the prices of their goods. Indeed, to ensure that the wage hike did not lead to higher prices, the report recommended that the wage control order include a clause stating: "Any change made by an employer in wage rate pursuant to this provision would not be recognized as a basis for increase in the lawful maximum prices for the employer's products or services."³⁴ These amendments to the wage control order took effect in February 1946.

³⁰ LAC, MG26 J4, vol. 419, "Cabinet conclusions," 13 September 1945.

³¹ Canada, Parliament, House of Commons, Standing Committee on Industrial Relations, *Minutes of proceedings and evidence*, vol. 19 (Ottawa: King's Printer, 1945)

³² LAC, MG26 J4, vol. 420, "Cabinet document No. 87: wage control policy," 11 October 1945.

³³ LAC, MG26 J4, vol. 420, "Cabinet document No. 119: wage control policy," 21 November 1945.

³⁴ LAC, M26 J4, vol. 419, "Cabinet conclusions," 19 December 1945.

A piecemeal solution to the growing number of labour disputes, the wage control amendment failed to satisfy workers and their unions. A few strikes broke out in early 1946,³⁵ but because these work stoppages occurred in unessential industries and did not severely impair production or unduly slow reconversion, Cabinet became less concerned about the uncertain state of Canadian industrial relations. Together with Justice Rand's settlement of the Ford strike, the King government likely hoped that the new wage control provisions would contain labour unrest long enough for the inflationary threat to pass, at which time a more satisfactory decontrol of wages would be implemented.

Ottawa's approach to price decontrol between September 1945 and January 1946 resembled the one followed to address wages. In early September King believed that price control would be a sizable policy challenge during the reconstruction period. Indeed, the prime minister confided to his diary that price policy was "the largest and most difficult problem" his government faced.³⁶ On the one hand, farmers, manufacturers, and large retailers were anxious to see the price ceiling lifted.³⁷ The United States government was preparing to lift its price controls as early as possible, an event which would amplify calls to loosen Canadian price constraints and tempt manufacturers and retailers to sell scarce goods on the American market.³⁸ Consumers, on the other hand, were accustomed to set prices and would be unnerved if the cost of goods rose suddenly. The WPTB opposed any price increases that threatened to intensify inflationary pressures. These competing impulses warred in King's mind when

³⁵ Canada, Dominion Bureau of Statistics, *Canada Year Book, 1947* (Ottawa: King's Printer, 1947), 645.

³⁶ LAC, WLMK Diary, 13 September 1945.

³⁷ Joseph Schull, *The Great Scot: A Biography of Donald Gordon* (Montreal: McGill-Queen's University Press, 1979), 99.

³⁸ LAC, RG2, series 18, vol. 78, file E-20-6, "Current economic conditions in Canada: Statement No. 1," October 1945.

he contemplated the price problem. On 13 September the prime minister claimed that “I think the control will more and more have to go.” Yet the next day King proclaimed that “I came to feel it more and more strongly that it would be better to hold at all costs to our anti-inflationary policy which, as much as anything else, had won us the support and confidence of the Canadian people.”³⁹ In the fall of 1945, an obvious solution to the price problem was far from apparent.

Buoyed by widespread public support for price controls, the demands of the European recovery assistance, and fears of inflation, the WPTB convinced Cabinet to keep the ceiling on most prices throughout remainder of 1945. Caution had prevailed. By January 1946, however, Donald Gordon was ready to approve a suspension of the price ceilings on articles that had little impact on production costs or the cost-of-living, including luxury items, tobacco, and pharmaceuticals. The Board thought it wise to allow these price increases for three reasons. First, greater price flexibility would encourage production and employment. Second, focusing the WPTB’s limited administrative resources on essential goods would better serve the anti-inflationary struggle. Third, suspending the price ceiling on certain items advanced the orderly decontrol agenda and would keep Canadian price trends closer to those of the United States. Alongside this easing of price controls, Gordon also announced plans to end subsidies of non-agricultural goods; subsidies for foods would be retained to prevent a jump in the cost-of-living. Gordon justified these changes to the stabilization program by acknowledging that “some risks must be taken.” What was more, given the progress of the reconversion

³⁹ LAC, WLMK Diary. 13 and 14 September 1945.

program and increases in the production of civilian goods, the WPTB chairman was optimistic that “the peak of inflationary pressures will pass within say, six months.”⁴⁰

Cabinet endorsed Gordon’s proposals without hesitation.⁴¹ On 31 January 1946, the prime minister issued a public statement outlining the changes to the stabilization program.⁴² King began by warning Canadians that “The need has not yet passed for emergency measures to avert the threat of inflation and dislocation.” He also emphasized that the government was committed to keeping down the cost-of-living and preventing a “severe depression.” Nevertheless, King was unequivocal that controls “are in no sense a permanent feature of the Dominion Government’s activities.” “To provide jobs,” he explained, “there must be incentive to permit businesses, large or small, to take the risks involved in expanding operations and in entering on new lines of activity.” A flexible price ceiling was a prerequisite for industrial expansion of this kind. Moreover, the prime minister warned, “price control should not be allowed to restrict the expansion of peacetime production.” Given that “the one satisfactory answer to the danger of inflation is more and more production,” acceptance of moderately higher prices on “non-staple articles” would eventually benefit the public. To reassure Canadians, King explained that the price ceiling on the items in question was only being suspended, not removed. If business failed to show self-restraint or unexpected levels of inflation appeared, the controls would be returned. Similar qualifications and explanations were provided for the decision to eliminate non-agricultural subsidies.

⁴⁰ LAC, RG19, vol. 388, file 101-102-38, “D. Gordon to J.L. Ilsley,” 4 January 1946.

⁴¹ LAC, MG26 J4, vol. 419, “Cabinet conclusions,” 18 January 1946.

⁴² RG19, vol. 388, file 101-102-38, “Statement by W.L. Mackenzie King: Government policy on price and wage control in the transition period,” 31 January 1946.

In contrast with the government's autumn 1945 worries about price increases, this slight loosening of the price ceiling demonstrated Cabinet's resolve to risk a minor rise in inflation for the sake of higher production, industrial expansion, and an advancement of decontrol. As with the relaxation of wage controls, moreover, the January 1946 price policy indicated a growing ease with the pace and progress of reconstruction. While the January price announcement left essential goods under a strict ceiling, the government was hopeful that higher production levels resulting from reconversion would permit most items to be decontrolled before the Emergency Powers Act expired in January 1947. By that time, reconversion was expected to have advanced to a point where high and stable employment and incomes were assured, which would dilute Canadians' lingering worries about price decontrol and a freer market.

By February 1946 the King government had shed the fretful outlook of September 1945. Howe's cautious optimism had proved prescient. As they examined Canada's economic standing in early 1946, Cabinet could be cautiously pleased with its reconstruction accomplishments. By late February 1946, reconversion was half-complete. By May, it was estimated that over sixty percent of firms would be done reconverting, and by September, seventy-five percent. Industrial modernization and expansion were also moving ahead. Approximately ten percent of businesses had modernized or expanded by late February. By September over forty percent of firms were expected to finish modernizing or expanding, and by December 1946, over sixty percent.

Demobilization was progressing with equal speed. In August 1945 nearly seven hundred thousand Canadians were still in uniform. By early spring 1946, approximately half a million military personnel had been demobilized, leaving only 193,000 still in the

armed forces. War industry employment, meanwhile, was successfully reduced from 626,000 in August 1945 to 53,000 in March 1946, meaning that 573,000 war workers had entered the civilian labour market over this time. Civilian industry had been asked to absorb more than one million demobilized soldiers and war workers and had done so. Though the retirement of older workers, domestication of female employees, and veteran university and college enrolments eased the burden of providing employment for all who wanted to work, the task had seemed daunting nonetheless. Yet, from August 1945 to March 1946, the number of unemployed increased by only 191,000, bringing the total national unemployment figure to 267,000. High compared with wartime unemployment, a quarter million jobseekers was a modest and manageable number given that reconversion was only half complete. Once reconversion was finished and more firms were enticed to modernize and expand, the government estimated, industry would have no trouble employing those still seeking work.

DoR's economic surveys showed that aggregate demand remained strong in the first months of 1946 --too strong, in fact. Demand for items listed on the cost-of-living index remained too intense to contemplate a relaxation of controls on essential goods in the near future.⁴³ But this same swell of demand was propelling industry to boost production, ensuring that Cabinet would take no measures to calm consumers' appetite. Overall, then, as spring approached in 1946, the King government was confident that reconstruction was progressing. Enthusiasm was the prevailing mood.

Behind DoR's promising statistics, however, lay signs of economic turmoil ahead. Most alarming of all were developments in the United States. In early 1946, large-scale

⁴³ LAC, RG2, series 18, vol. 78, file E-20-6, "Current economic conditions in Canada: Statements No. 5-6," February-March 1946.

strikes gripped the American steel industry. Already short supplies of these invaluable materials became far shorter. Canada, an importer of American steel, was immediately affected. Imports of steel from the United States dropped by seventy-five percent and Canadian firms were forced to deplete their inventories.⁴⁴ Reconversion in the automotive and appliance industries slowed considerably. Analysts at DoR worried that “If the strike lasts much longer hundreds of thousands of Canadians will be out of work.”⁴⁵ The United States Congress was also preparing to further weaken American price and wage controls.⁴⁶ “The effect of such a development,” DoR noted, “would add an additional upthrust to Canadian prices.”⁴⁷ Canadian labour unions would likely seek to emulate the wage gains of their American counterparts. In fact, DoR warned that labour unrest was likely to worsen by summer. Work disruptions were anticipated in the Canadian iron and steel, textile, and lumber industries. Were strikes to occur in any of these sectors, shortages of vital materials would deepen, possibly hindering reconversion efforts, and in the case of textiles, increasing the cost-of-living. A December 1945 WPTB consumer branch study, furthermore, indicated that the government would have a more difficult time containing inflation in the coming year.⁴⁸ Although Canadians were deeply concerned about the possibility of higher living costs, they were growing apathetic about the need to control inflation, the cause of cost-of-living increases. Canadians were also becoming impatient about shortages and the absence of coveted consumer goods, which could lure them towards black markets and speculators. This meant that, on the one hand,

⁴⁴ Schull, *Gordon*, 107.

⁴⁵ LAC, MG27-III B20, vol.146, file 89-2, “Economic conditions,” undated.

⁴⁶ LAC, MG27-III B20, vol. 74, series 2-7-1-3 C.P.R.B (23), “Department of Reconstruction (Washington Office) to C.D. Howe,” 12 March 1946.

⁴⁷ LAC, RG2, series 18, vol. 78, file E-20-6, “Current economic conditions in Canada: Statement No. 6,” March 1946.

⁴⁸ Christopher Waddell, “The Wartime Prices and Trade Board: Price Control in Canada in World War II” (Ph.D Dissertation, York University, 1981), 574.

the public would be more fearful about the effects of inflation and critical of price decontrols, while, on the other hand, certain members of the public would be behaving in ways that feed inflation and undermined the stabilization program. Encouraging the public to support the stabilization program and pace of decontrol under these conditions would be difficult. Even as Cabinet celebrated the triumphs of reconstruction's first seven months, new concerns and uncertainties were developing.

4.3) Curbing the Enthusiasm, March-December 1946

Reconstruction nearly reached a breaking point between March and December 1946. Within a few months of thinking that the main obstacles of the transition period had been overcome, Cabinet faced rapidly increasing prices and inflation, and widespread labour unrest in key industries. Despite their wartime prudence and best postwar efforts, ministers worried that the government had failed to prevent a recurrence of the crises that seized Canada following the First World War. In the summer of 1946, in particular, it seemed that inflation and mass strikes would combine to tear down the achievements of the first seven months of peace. Strikes worsened already deplorable shortages. Reconversion and private investment slowed. Serious inflation infected the cost-of-living index for the first time since 1941. And by the end of 1946, the government's powerlessness against labour militancy led to the wage ceiling's collapse. As Canada entered 1947, Cabinet's earlier enthusiasm had been decidedly curbed.

In March 1946, with the reconversion and demobilization moving forward, the Liberal government faced growing calls for Ottawa to accelerate the pace of decontrol. These calls came from the Conservative opposition and business groups who felt that

price controls were limiting profits, investment incentives, and slowing Canada's return to a free market. Although he sympathized with their views, C.D. Howe grasped the danger of "rash efforts of decontrol"⁴⁹ in this period of uncertainty. As the reconstruction minister, Howe was privy to DoR reports warning of growing inflationary pressures. He was also determined to avoid a repeat of the economic disaster that followed the brief period of prosperity that came after the end of the First World War. Progress on the reconversion and demobilization fronts did not mean that all economic dangers were gone. The opposite was true: the rapid pace of reconversion and demobilization heightened the threat inflation posed to the economic base. In spite of the reconversion's impressive success in 1945, Canada was still in a state of emergency and inflation still threatened the state's economy security and Canadians' standard of living. As Howe explained to the House of Commons on 20 March 1946:

I do not have to emphasize the obvious fact that *soaring prices would cause suffering and dislocation of our economic affairs*. That is clear enough. But I do wish to emphasize that soaring prices would pare down the large demand for goods and services, on the maintenance of which our objective of high production and high employment is based. The incomes and the great accumulated savings of the Canadian people would lose their purchasing power, and it would not be very long before the demand was insufficient to sustain the rising level of production in a number of directions. Then we should have a depression with its consequent unemployment, suffering and loss of income. *To remove price control, or to ease it to the extent that it was not effective, would simply be to invite a wide boom and a severe depression.*⁵⁰

In defending the government's stabilization program, Howe was also sure to make clear that controls would only remain in place as long as emergency conditions endured. Once the state of emergency passed, the government would return Canada to liberal-democratic capitalism. The Liberals were constraining liberal-democratic capitalism in

⁴⁹ Canada, Parliament, House of Commons, *Debates 1946*, vol.1, 119.

⁵⁰ *ibid.* Emphasis added.

order to better protect Canada's organizing ideologies once a fully free market was restored:

This government is not maintaining controls because of any inherent liking for them. Not only do the continuing war imposed controls represent a heavy and difficult administrative burden, but they represent a degree of interference with economic processes which can only be justified in emergency conditions. *But we are still faced with a real and urgent emergency condition in our economic life – the aftermath of the most destructive war in history.*⁵¹

The King Cabinet, however, recognized that the concerns of the business community were partially legitimate. To keep reconversion moving forward and reestablish a viable peacetime market economy, more decontrols were necessary. But these decontrols had to be orderly and targeted, lest they cause problematic inflationary increases.

On 2 April finance minister Ilsley announced that iron, steel, lumber, and pulp and paper prices were rising, as were the prices of goods made from these materials.⁵² For the first time since the end of the war, minor price increases were allowed on certain items listed on the cost-of-living index, including butter, pork, clothing, and furniture. Ilsley defended these unpopular price increases by reminding Canadians that gradual decontrols were necessary to return Canada to a self-regulating market economy. What was more, the finance minister explained, wage increases won in the forestry sector and climbing production costs in the iron and steel industries meant that price adjustments were needed to keep profits stable and production up. Similarly, butter and pork producers lacked incentives to supply Canadians and European recovery efforts with sufficient amounts of their goods. Canadians would have to pay more for these staples,

⁵¹ *ibid.* Emphasis added.

⁵² LAC, RG19, vol. 388, file 101-102-38, "Statement by Ilsley re price policy," 2 April 1946.

but at least they would be available for all who needed them. Ilsley, furthermore, made sure to tell the public that these price adjustments “do not mean that we contemplate an early lifting of our price control system, nor must they be taken to imply that any serious increase on the cost of living is impending. On the contrary, they indicate that the Government is prepared to maintain control over the movement of prices during this difficult and *highly dangerous transition period*.”⁵³

Cabinet approved further price and subsidy adjustments in late April and May. Notably, the subsidy on milk was lifted and price increases were permitted on farm equipment. As with the April adjustments, Cabinet accepted these changes thinking that their effect on the cost-of-living would be incidental. Regrettably for the government, inflationary pressures arising from American price trends, enduring shortages, and labour unrest in both the United States and Canada meant that the cost-of-living was undergoing an upward movement. The April-May price adjustment added to this already existing current.

In late June 1946, Donald Gordon drafted a memorandum for Cabinet warning of a sudden spike in inflationary pressures.⁵⁴ Unless countermeasures were immediately implemented, the WPTB chairman cautioned, the entire stabilization program was “in imminent danger of disintegration” and Canada would experience “really serious inflation.” Gordon explained that an unexpected prolongation of certain shortages resulting from work stoppages had hindered production rates. Because production levels were lower than anticipated, the decontrols permitted by the government since April had amplified inflation pressures to a greater extent than expected. “Uniformly bad” price

⁵³ *ibid.* Emphasis added.

⁵⁴ LAC, RG19, vol. 388, file 101-102-38, “The future of the stabilization program,” June 1946.

developments in the United States, such as Congress' gutting of the U.S. Office of Price Administration's powers,⁵⁵ were also causing Canadian inflationary pressures to mount, as was a continuing weakening of Canadian wage controls. Price rises on materials recently decontrolled by Ottawa, including iron and steel, wood products, and textiles, were linked to a five percent increase in wholesale prices.

In addition, and of special concern given the public's fragile faith in reconstruction,⁵⁶ there was the recent rise in the cost-of-living. Gordon reported that, whereas the cost-of-living remained steady between September 1945 and February 1946, the cost-of-living index had climbed nearly four points since early March. As he noted, this increase meant that the cost-of-living increased as much between March-June 1946 as it had during the war. The items that led to this rise were those areas that the government had recently decontrolled. Higher milk, pork, and butter prices accounted for half the cost-of-living increases, while clothing, furniture, and miscellaneous goods were responsible for the remainder. If the government did not act to reinvigorate the stabilization program, in even the best of circumstances the cost-of-living index would rise by another three points before the end of the year. Were Canadians saddled with this further price rise, consumers, labour, farmers, and small and large business would probably conclude that the anti-inflationary program was ineffective, prompting them to disregard whichever controls and stabilization measures were still in place. Such an outcome would result in a total defeat of the stabilization program, since the effectiveness of anti-inflationary measures were tied to public support. Absent decisive action on the

⁵⁵ LAC, RG2, series 18, vol. 78, file E-20-6, "Current economic conditions, No. 9," June 1946.

⁵⁶ On the public constant fear of increased living costs in the postwar period (1945-1948), see Waddell, "Wartime Prices and Trade Board," 545-575; 616-617; 700-706; 714-715; 726-730.

government's part, Canada might be mired in an inflationary spiral reminiscent of 1919-1920.

Gordon proposed several policies to reinforce the stabilization program and reassure the public that the government remained committed to combating inflation. He recommended that, instead of advertising which goods were freed from the price ceiling, from this point on the government should release lists of those goods still subject to price controls. Doing so would dispel notions that the stabilization program was unraveling and allow the WPTB to focus its administrative energies on a maintain ceilings on a clear set of items. He also advised that the government be less accommodating when answering requests for price adjustments. To better address the price pressures caused by American imports, Gordon suggested that a ten percent mark-up should be imposed on all goods coming from the United States. Next, he announced that, in a reversal of previous policy, "all the major subsidies will have to be retained and in some cases the payments increased." Most importantly, Gordon called for parity between the Canadian and American dollar. Since the Canadian dollar was valued at ten percent less than its American counterpart, putting the two currencies at par would reduce the gap between Canadian and American prices and lower the cost of imports from the United States. Gordon believed that this was the sole measure that could reduce inflationary pressures, rather than simply keep them at bay. The only foreseeable negative repercussion of the parity policy would be a weakening of Canada's balance of payments with the United States, a dangerous proposition but a necessary one considering the possible effect of uncontrolled inflation.

Cabinet took Gordon's advice. Ilsley informed Parliament of the changes to the stabilization policy on 5 July 1946.⁵⁷ The finance minister knew that the new measures would receive mixed reactions. Consumers would support the issuance of a controlled items list, especially since it included essentially every product of common household use,⁵⁸ but businesses exporting goods to the United States would react angrily to parity with the American dollar. For those who doubted the necessity of the parity policy, Ilsley explained, and securitized, the consequences of inaction. When the government saw the rapid increase in American prices, he argued:

We were faced with the alternative of either changing the exchange rate, or of setting in motion, as the process of decontrol continued, an increase in our own price and cost structure, more or less to the American level plus 10%. What this would mean in terms of the high cost of living, social unrest, and wage conflicts, can readily be imagined. The Government has decided that such an extra measure of inflation, additional to whatever price increases may otherwise be necessary if we are to complete the adjustment to postwar conditions, would have the *most serious disruptive effects on the entire economic and social structure of our country*, and must be prevented by the only action which in the long run can prevent it.⁵⁹

Ilsley also used the occasion to remind both Parliament and the public of the danger inflation posed to Canada's national economic security, of the necessity of retaining the stabilization program, and of the state of emergency the Canadian state continued to exist under:

When parliament gave its approval to the [National Emergency Transition Powers Act] last December, it recognized that the emergency conditions which prevailed at the time would continue to endanger the stability of the Canadian economy for at least another year, and that certain measures such as price control and rationing would have to be continued. Most of us hoped that the situation which made these controls necessary would gradually improve. In recent months,

⁵⁷ LAC, RG19, vol. 388, "Statement by minister of finance to the House of Commons," 5 July 1946.

⁵⁸ Schull, *Gordon*, 107.

⁵⁹ LAC, RG19, vol. 388, "Statement by minister of finance to the House of Commons," 5 July 1946. Emphasis added.

however, a series of developments of increasing seriousness have combined to create a great and growing threat to our national stabilization programme...When all is said and done, the objectives of our national stabilization programme are the preservation of real social values, the protection of the real value of wages, of the real incomes of primary producers, of the real incomes of pensioners, and teachers and office workers, and of the wartime savings of millions of Canadians.⁶⁰

Inflation, the finance minister was telling his audience, was no mere problem or inconvenience. It was a veritable threat to their standard of living, the viability of the state's traditional organizing principles, and the security of Canada's economic base. Appreciating this threat, the government had retained exceptional executive powers to extent vital anti-inflationary measures in peacetime. Though the first months of peace raised hopes that the emergency was passing, dangers persisted. Canada was still in a state of emergency and robust stabilization measures were still required to reassure its people, and protect the state's ideological and economic foundations.

Following the July adjustments, no further alterations to the stabilization program were contemplated until the fall of 1946. The new measures were given time to prove their worth. As well, from July to October, the King government was preoccupied with another source of instability and consternation, the eruption of several large strikes in key Canadian industries. Comparable to the strike waves of 1919 and 1943, the labour disputes of the summer and early fall of 1946 were seen by analysts at DoR as imperiling the entire reconstruction effort.⁶¹

Unlike the United States, Canada had enjoyed a period of relative industrial peace in the winter of 1946. Thanks to the Rand formula and the easing of wage controls in February 1946, labour unions refrained from backing work stoppages in Canadians'

⁶⁰ House of Commons, *Debates 1946*, vol.3, 3180.

⁶¹ LAC, RG2, series 18, vol. 78, fileE-20-6, "Current economic conditions, No. 10," July 1946.

major industries. By April 1946, however, labour's attitude had changed. Seeing the wage gains made by their American counterparts and Ottawa's decision to decontrol items on the cost-of-living index, Canadian unions recognized that an opportunity to advance their interests was at hand. Indeed, while Donald Gordon continued to tell unions that their cooperation and restraint was needed to keep down inflation,⁶² Cabinet's decision to decontrol some staple goods likely led labour leaders to believe that their members' well-being was being undermined for the sake of the business community and that the King government was less concerned about inflation than Gordon claimed. On 5 April 1946, three days after Ilsley presented his decontrols to Parliament, labour representatives met with the prime minister. King's reported in his diary that the union leaders were provocative in tone and demeanour.⁶³ It was an early sign that the short-lived industrial peace was about to end.

On 14 May 1946, lumber workers in British Columbia began a strike that lasted until 26 June. The strike, which resulted in six hundred thousand cumulative lost work days, exacerbated Canadian lumber shortages and delayed construction projects.⁶⁴ In late May, the communist-led Canadian Seamen's Union launched a merchant marine strike in Ontario and Quebec. Lasting until 22 June, the seaman's strike hampered the "movement of coal, oil, and other essential commodities," prompting federal labour minister Mitchell to recommend the installation of a shipping controller to "operate the ships under government direction."⁶⁵ Though the strike ended before Cabinet imposed a controller, Mitchell was shaken by the sudden return of labour militancy. In mid-June he asked

⁶² LAC, RG19, series E-1(d), vol. 2735, "D. Gordon to P. Conroy," 29 March 1946.

⁶³ LAC, WLMK Diary, 5 April 1946.

⁶⁴ Fudge and Tucker, *Labour Before the Law*, 292.

⁶⁵ LAC, MG26 J4, vol. 419, "Cabinet conclusions," 10 June 1946.

Cabinet to make the wage control order more flexible. Wage increases now were to be accorded when workers' requests were judged "just and reasonable," a loose criteria.⁶⁶

Shortly after Mitchell proposed the wage control amendment, the strike situation worsened. Rubber plant workers began a strike on 23 June that lasted until 28 October and cost eight hundred thousand work days. The strike deepened shortages of rubber-based goods such as tires and plumbing implements. In early July metal miners in British Columbia and electrical workers in Ontario also ceased their work. Both of these strikes lasted until November 1946, aggravated shortages, and together cost their industries more than five hundred thousand work days.

Worse problems lay ahead. On 10 July Mitchell informed Cabinet that strikes were brewing at the Stelco steel plant in Hamilton, Ontario, Algoma Steel in Sault Ste. Marie, Ontario, and Dominion Steel in Sydney, Nova Scotia. Serious though the other strikes were, their consequences would pale in comparison to a labour disruption in the steel sector. Canadian firms had yet to fully recover from the American steel strike; their inventories were depleted. Another disruption of steel supplies would force Canadian firms to slow their production, reconversion, expansion, and modernization plans.⁶⁷ Stalled production of steel-based products would heighten inflationary pressures and compel steel-dependent manufacturers to forgo hiring and perhaps initiate a series of layoffs. Mitchell told Cabinet that a steel controller should take control of the industry. He hoped that the controller and steel workers would be able to arrive at a wage settlement and avoid a strike. Cabinet concurred and placed the steel industry under a controller on

⁶⁶ LAC, RG2, vol. 65, file c-20-5, "Amendment to the Wartime Wage Control Order," 14 June 1946.

⁶⁷ LAC, RG2, series 18, vol. 78, file E-20-6, "Current economic conditions, No. 8," May 1946.

10 July.⁶⁸ In addition, Cabinet passed an order-in-council “declaring the strike to be illegal and providing for substantial penalties for the union, its officials, and any workers if they went on strike.”⁶⁹ Labour historians Fudge and Tuckner, furthermore, have argued that the federal government contemplated using federal police to prevent picketers from completely shutting down production at the plants.⁷⁰

In spite of Cabinet’s intervention, steel workers began striking on 14 July 1946. Two disputes fuelled the strike. First, the steel workers sought a wage increase of 15-20 cents per hour. Steel executives hinted that only an increase of 10 cents an hour was acceptable. Second, the management of Stelco, Canada’s leading steel company, had refused to recognize the steel workers’ union, the United Steel Workers of America (USWA). This went against PC 1003 and the spirit of the Rand formula that had settled the 1945 Ford strike, demonstrating that workers’ right to organize and bargain collectively was threatened. Together, the striking workers in Ontario and Nova Scotia totaled 12,500. Before it was finally settled, the strike would cost the steel industry seven hundred thousand working days.⁷¹

Two days after the strike started, prime minister King opted to send the dispute to the Parliamentary committee on industrial relations. Above all, the prime minister wanted to expose both management and USWA’s positions to greater scrutiny. Since both sides of the disputes were acting in ways that harmed the larger interests of the economy, the Canadian people, and therefore the Canadian state, forcing management and USWA to air their claims in public served to diminish sympathy for their causes. Public hearings on

⁶⁸ LAC, MG26 J4, vol. 419, “Cabinet conclusions,” 10 July 1946.

⁶⁹ Fudge and Tucker, *Labour Before the Law*, 289.

⁷⁰ *ibid.*

⁷¹ LAC, RG27, vol. 1745, file 7-21-2777 v.5, “Developments in steel industry dispute,” 31 August 1946.

the steel strike would allow the government to better explain and publicize its position on the relationship between price controls, wage controls, and inflation. If Canadians grasped that labour's actions were a factor in their increasing cost-of-living, criticism of the strike wave and its consequences would mount, perhaps compelling labour to reconsider its tactics. King also hoped that "the Committee might attempt to discover exactly what plan laid behind the Union action."⁷² The prime minister seems to have wondered if the strike wave constituted a plot by Canadian unions to undermine wage controls and other stabilization policies that limited labour's gains during the transition period. Whatever else the Committee managed to do, the prime minister hoped that it would help facilitate negotiations, lead management and USWA to compromise, and bring an end to the strike.

The Parliamentary Committee failed to resolve the strike. Instead, its well-publicized hearings became a platform for union leaders, steel company executives, and government officials to broadcast their grievances and divisions. Yet, because it served as such a rhetorical platform, the hearings did seem to fulfill King's other aims. The federal government was able to expound on the inextricable link between price and wage control, and to warn of the dangers posed by the unrelenting strike wave. Union leaders exposed themselves to heavy criticism and made statements that may have eroded popular support for their cause. Steel executives, meanwhile, joined the labour leaders in highlighting their counterproductive bargaining stances.

Leading the government's charge before the Committee was Donald Gordon. His testimony to the committee is best summarized by his biographer, Joseph Schull:

⁷² LAC, MG26 J4, vol. 419, "J.R. Baldwin to A.D.P. Heeney," 1 August 1946.

The country, [Gordon] said, was in the grip of what amounted to a general strike. 'I don't think the completely disastrous effects of the strike situation has been fully appreciated...*its effects on the whole Canadian economy [are] absolutely startling.*' Within two weeks, he predicted, all housing construction and all commercial building would have to be shut down. Foundries would be closed in a month, bringing the production of agricultural machinery to a full stop and seriously affecting the railroads. The textile strike would cut the production of clothing, already in short supply. In men's suits there would be a bare 6 per cent of the normal required volume; the shortfalls in babies' diapers would be 42 per cent, and next fall, he warned the members of the committee, when they were looking around for shirts they would find them hard to get.⁷³

Gordon was also asked by how much steel wages could rise before the price ceiling would give way. A committee member hinted that a ten cent per hour increase could be absorbed without undermining price controls. "A 10-cent increase," Gordon replied, "would put pressure on price control which would be practically unbearable. I would be very much afraid that it might be the beginning of the end." Though the committee was somewhat skeptical, the WPTB chairman had made his point: widespread wage increases in industry would mean higher prices for all. The consequences were clear to Gordon: "It is not just the immediate price increases that would worry me, though they would be widespread and important. It is the effect on the public, on the farmer, on the businessman, on the landlord. The public...is going to lose faith in price control if prices are going up sharply all over the place and when that happens we would have no control at all...no matter what laws might be passed."⁷⁴ Over the course of the Committee's hearings, Gordon's warnings were echoed by the minister of labour, as well as the acting minister of finance, Douglas Abbott.⁷⁵

⁷³ Schull, *Gordon*, 107-108. Emphasis added.

⁷⁴ LAC, RG27, vol. 1745, file 7-21-2777 v.5, "D. Gordon to Chairman of committee on industrial relations," 8 August 1946.

⁷⁵ LAC, RG27, vol. 1745, file 7-21-2777 v.4, "H. Mitchell statement to the committee on industrial relations," 5 August 1946; LAC, MG32, series B6, vol. 15, "D. Abbott statement to committee on industrial relations," 6 August 1946.

Charles Millard of the steelworkers' union countered the government's claim that anything more than a ten cent increase would wreck the price ceiling. He told the committee that the government was "clinging to wage controls in the faces of [its] own figures."⁷⁶ Inflation and increases in the cost-of-living, Millard reminded the committee, had climbed in spite of the stabilization program. Rather than continuing with a failing strategy, he suggested, the government should recognize that higher wages would spur production and alleviate shortages. Millard also presented the committee with a favourable picture of the steelworkers' aims and demands. All the workers wanted, he claimed, were union security and a fair wage increase; there were no nefarious schemes behind the steel strike.⁷⁷ Unfortunately for Millard, the heated testimony of other labour leaders reinforced views that the steel strike was part of a larger plan to coerce the government. In his testimony,⁷⁸ Pat Conroy of the Canadian Congress of Labour resorted to "immoderate" language and made statements that fuelled suspicions that "the Union created a situation in which it now extremely difficult for either side to compromise its position." What was more, "Conroy admitted...in his testimony that" "the whole Canadian Congress of Labour is bitterly opposed to the government" and that "the strikes are deliberate strikes against the government, with a greater measure of socialism as part of their ultimate objective."⁷⁹ This assessment, written by an official from the Privy Council Office, reflected a growing sense within the halls of government that the summer strike wave was in part driven by ideology, rather than the interests of workers.

⁷⁶ Schull, *Gordon*, 109.

⁷⁷ LAC, RG27, vol. 1744, file 7-21-2777 v.3, "Statement of C.H. Millard to industrial relations committee," 18 July 1946.

⁷⁸ LAC, RG27, vol. 1745, file 7-21-2777 v.4, "Statement by P. Conroy to industrial relations committee," 1 August 1946.

⁷⁹ LAC, MG26 J4, vol. 419, "J.R. Baldwin to A.D.P Heeney," 9 August 1946.

Testimony given by steel executives further exposed the chasm dividing the union and management.⁸⁰ Hugh Hilton, the president of Stelco, claimed that appeasing aggressive unions was not the path to industrial peace. Instead of showing a willingness to negotiate, Hilton urged the government to impose penalties on the union and striking workers, as Cabinet had threatened to do before the work stoppage started. Coupled with USWA's rigidity, Hilton's stubbornness ensured that the grounds for a settlement of the steel strike eluded the Parliamentary committee on industrial relations.

With the steel strike still raging, the press turned on the striking workers in late August and early September 1946. Editorial headlines from across the country included 'High Cost of Striking', 'A National Calamity', 'This Madness', 'Strikes Killing Industrial Future', 'Coercion of Government', and 'End This Steel Strike!'.⁸¹ Facing such heightened pressure to compromise and knowing that their tactics were subject to a law of diminishing returns, union leaders recognized that the window to negotiate a favourable agreement was closing. Yet this did not mean that labour was willing to capitulate. Union leaders knew the government was equally eager to end the strike. If they gambled and held firm for a short time longer, a settlement that served their aims might be attainable.

In early September, Mitchell, who was now serving directly as the government mandated mediator, offered the strikers a 10-12.5 cent per hour wage increase. Union leaders demanded 15.5 cents.⁸² Labour representatives also reiterated their call for union security and fewer working hours. It was a risky strategy but it paid dividends; in late

⁸⁰ LAC, RG27, vol. 1744, file 7-21-2777 v.3, "Statement by Steel Company of Canada to industrial relations committee," 22 July 1946.

⁸¹ LAC, RG27, vol. 1744, file 7-21-1-2-1, "Canada's press comments on strikes," undated.

⁸² LAC, RG27, vol. 1745, file 7-21-2777 v.5, "Statement by minister of labour on steel strike negotiations," 5 September 1946.

September, the government finally agreed to capitulate. Although Howe advised against showing weakness in the face of labour pressure,⁸³ a majority of the Cabinet believed that the benefits of ending the struggle outweighed the disadvantages. Cabinet was simultaneously confronted with a farmers union strike and had been warned by the unions that a strike in the coal industry might erupt if the steel workers demands were not met.⁸⁴ The unions had outflanked the government; Cabinet concluded that the inflationary pressures of evermore strikes would be greater than those brought on by an increase in steel wages. In early October, steel workers were offered a 13.5 cent per hour wage increase along with a promise of five additional cents by the end of the year, a forty-four hour work week, and the Rand formula for union recognition and funding.⁸⁵ Steel workers accepted the government's offer on 4 October 1946. After more than eighty days, the steel strike was over.

The steel strike agreement had an immediate impact on the future of the stabilization program. Despite everything government officials had done to prevent such an outcome, the steel strike agreement heralded the demise of wage control. Having accepted wage increases that far surpassed the limit the WPTB had set to prevent an inflationary spiral, the government acknowledged that wage controls had lost all credibility. Even Donald Gordon admitted that the battle against significant wage increases was lost.⁸⁶ On 9 October 1946, Cabinet agreed that wage controls were to be "removed by the end of the present year."⁸⁷ Under pressure to lift the wage ceiling as soon as possible, the King government opted to remove the wage ceiling on 1 December

⁸³ LAC, RG27, vol. 1745, file 7-21-2777-1 v.6, "C.D. Howe to H. Mitchell," 20 September 1946.

⁸⁴ LAC, MG26 J4, vol. 419, "Cabinet conclusions," 12 Sept 1946.

⁸⁵ Fudge and Tucker, *Labour Before the Law*, 289-290.

⁸⁶ Schull, *Gordon*, 109.

⁸⁷ LAC, MG26 J4, vol. 419, "Cabinet conclusions," 9 October 1946

1946. Though the government acted as if the decision was a logical step in the decontrol process,⁸⁸ it is clear that the labour militancy and the ruinous effects of the strike wave had forced Cabinet to act against its better judgment. The challenge ahead was how to salvage what remained of the stabilization program.

Aware that this lifting of the wage ceiling would place tremendous upward pressures on prices, Gordon and Ilsley were adamant that the government would need to demonstrate an unflinching determination to maintain price controls on essential goods.⁸⁹ If the government failed in this endeavour, postwar prosperity and reconstruction would soon be undermined by “very painful deflationary adjustments.”⁹⁰ In addition, Gordon and Ilsley noted, a firm stance on price controls was required to calm public consternation that the lifting of the wage ceiling meant a termination of the entire stabilization program.⁹¹ Lastly, the WPTB chairman and finance minister proposed country-wide radio broadcasts to encourage businesses to show restraint when raising prices on decontrolled items and to instill a similar degree of restraint in workers and unions seeking wage increases. The radio broadcast would also serve as a means of soothing Canadians’ fears that the government was preparing to abandon price controls on goods included in the cost-of-living index.

In November 1946, Gordon took to the airwaves in a series of five, fifteen minute radio-broadcasts. As planned, Gordon used his airtime to assure Canadians that the WPTB was still keeping on eye on prices and that their standard of living was being

⁸⁸ LAC, RG19, vol. 498, file 121-0-7, “Prime minister’s office press release,” 29 November 1946.

⁸⁹ LAC, RG19, vol. 361, file 101-102, “D. Gordon to J.L. Ilsley,” 31 October 1946.

⁹⁰ LAC, RG19, vol. 388, file 101-102-38, “Draft statement on price controls,” 25 November 1946.

⁹¹ A reading of the WPTB’s monthly newsletter, *Consumers’ News*, indicates that public fears were a constant issue.

safeguarded.⁹² His message was then reiterated by the prime minister when King released a statement about the lifting of wage controls. “The removal of wage and salary controls,” King explained, “involves no change in the government’s policy respecting price control and the control of rentals. It is the policy of the government to maintain these controls as long as they may be required to protect the people from a sudden and drastic rise in the cost of living.”⁹³

Beyond the termination of wage controls, the strike wave compelled the King government to study the future of Canada’s labour legislation. Since PC 1003 was set to expire with the end of the federal government’s emergency powers, the legislative structure of peacetime industrial relations required clarification. Under the British North America Act, industrial relations were a provincial jurisdiction. In light of the summer strikes, the King government was eager to return responsibility for labour affairs to the provinces. Indeed, with wage control gone and employment high, justifications for the federal government’s prominent role in industrial relations were weakening. Provincial governments, moreover, were determined to reassert their authority in that arena. Yet neither the federal nor provincial governments were willing to abandon “a common collective bargaining model.” The King government recognized that, for the sake of industrial peace, the principles of PC 1003 and Rand formula needed to be upheld after responsibility for industrial relations was returned to the provinces. Unless union security and collective bargaining rights were preserved, Canada would likely face a widespread union revolt once PC 1003 ceased to apply. In light of the damage done to the government’s reconstruction aims by the recent strike wave, the prospect of facing an

⁹² Schull, *Gordon*, 111.

⁹³ LAC, RG19, vol. 498, file 121-0-7, “Prime minister’s office press release,” 29 November 1946.

even greater degree of labour militancy sent a chill through the King administration. Accordingly, in the last months of 1946, the federal labour department began work on peacetime labour legislation that would encourage provinces to protect union security and collective bargaining.⁹⁴

Gordon's radio broadcasts, King's statement on wage decontrol, and the drafting of peacetime labour legislation marked the conclusion of the reconstruction period's most insecure phase. Beginning with the sudden inflationary spike of the late spring and into the crippling summer strike wave, 1946 had threatened to derail the government's stabilization program and overall reconstruction efforts. If not for the Cabinet's decision to forgo the use of force and penalties on strikers, the labour unrest that gripped Canada during the year might have led to violent confrontations between police and workers. The enthusiasm of the early months of the year had been dampened. Public faith in the government's handling of reconstruction dipped, despite Ottawa's insistence that Canadians' well-being was their first concern and priority.⁹⁵ Economic indicators for 1946 underscored the troubling impact of the inflationary bump and summer strike. Canada's gross national product declined by six percent compared with 1945.⁹⁶ From July to December 1946, the cost-of-living climbed by another two points, bringing the total increase over the year to seven points, a figure that rivaled 1941 figures.⁹⁷ Shortages of key materials such as steel and rubber were extended and industries that relied on products from strike-stricken firms saw their production decline by as much as twenty

⁹⁴ Fudge and Tucker, *Labour Before the Law*, conclusion.

⁹⁵ McInnis, *Confrontation*, 100.

⁹⁶ LAC, RG2, series 18, vol. 78, file E-20-6, "Current economic conditions in Canada, No. 12," September 1946.

⁹⁷ Canada, Dominion Bureau of Statistics, *Canada Year Book, 1947* (Ottawa: King's Printer, 1947), 929.

percent.⁹⁸ Among the sectors adversely affected by the strikes were the construction, automobile, shipbuilding, and plumbing industries.⁹⁹ Expansion and modernization projects slowed and firms experienced growing production costs, which in turn eroded profits.¹⁰⁰ Recognizing that the difficulties encountered in 1946 were unlikely to dissipate, in mid-year the King government extended the National Emergency Transition Powers Act until 31 March 1947. Cabinet believed that Canada would continue to be in a state of emergency in the new year.

A personal testament to the toll on Cabinet's optimism was J.L. Ilsley's retirement from the finance portfolio in December 1946. Having served as finance minister throughout the war and into the immediate postwar transition, Ilsley had shouldered tremendous burdens and stresses. His health had been poor since the end of the war and the difficulties of 1946 pushed him to his physical and psychological limits.¹⁰¹ The task of overseeing the finance department's reconstruction policies fell to Douglas Abbott, the assistant minister of finance. Abbott became minister of finance on 12 December 1946. Ilsley took on the less onerous position of minister of justice.

As he left his post at finance, Ilsley could look back on what the government had accomplished in spite of the 1946 disruptions. While the sudden inflationary increase and strike wave shook the King government, other aspects of reconstruction were advancing at a steady pace, and unemployment had been kept in check. The strength of the economy in 1946 overwhelmed the impediments to prosperity mounted by the inflationary spike

⁹⁸ LAC, RG2, series 18, vol. 78, file E-20-6, "Current economic conditions in Canada, No. 12-13" September-October 1946.

⁹⁹ LAC, RG2, series 18, vol. 78, file E-20-6, "Current economic conditions in Canada, No. 10-11," July and August 1946.

¹⁰⁰ Canada, Department of Finance, *1946 Budget Speech* (Ottawa: King's Printer, 1946); LAC, RG2, series 18, vol. 78, file E-20-6, "Current economic conditions in Canada, No.11," August 1946.

¹⁰¹ LAC, WLMK Diary, 2 December 1946.

and strike wave. King's administration deserved credit for protecting Canada's economic base during this time of uncertainty and unrest. Ilesley, in particular, had ensured that economic conditions were favourable for private investment, public expenditures were kept to a minimum to dampen inflation, demand stayed high, and unemployment was kept low.

On 27 June 1946, at the height of the inflationary panic and on the cusp of the steel strike, Ilesley had tabled the government's second postwar budget before Parliament. In spite of the inflationary difficulties Canada was experiencing, the document reiterated the earlier emphasis on tax reductions and demand sustaining measures. Ilesley justified his policies in two familiar ways. First, the finance minister explained that lower income and corporate taxes were central to reducing government's intervention in the economy. Lower tax rates would help a market economy flourish, since they removed "any serious deterrent to hard work and efficiency." Next, the finance minister reminded Parliament that "The real answer, the constructive answer, to inflationary pressures existing at this time is to work and produce the goods that are wanted in greater volume, so that our greater buying power will result in more goods at reasonable prices, rather than fewer at higher prices." Though adding more purchasing power into the economy at a time of feverish inflation may have struck some as poor policy, Ilesley was convinced that "We should aim now at high volume production for civilian purposes despite shortages, strikes, delays and uncertainties, [and] high volume production rather than high prices as sources of income and profits."¹⁰² Ilesley's budget reduced income tax revenues by twenty-three percent, those at the bottom of the income ladder benefiting most from tax relief. Corporate taxes were both cut and simplified. Rather than retaining a separate

¹⁰² *1946 Budget*, 7-9.

corporate tax and excess profits tax, the 1946 budget melded the two into a single corporate flat tax rate; when merged, the two taxes collected forty percent of corporate profits. Ilsley chose to reduce the corporate rate to thirty percent, which translated to a loss of \$135 million in government revenue.

Notwithstanding the labour unrest and worrisome buildup of inflationary pressures, the months that followed the 1946 budget offered the King government evidence that its efforts to boost production, sustain demand, keep unemployment low, and create a favourable environment for private investment were succeeding. Although over seven hundred thousand soldiers had been demobilized by the late summer of 1946, employment remained high. Indeed, by economic standards, Canada had reached a state of 'full employment'. Only 170,000 people, less than four percent of the civilian labour force,¹⁰³ were registered as unemployed in the late summer. This level of employment remained steady throughout the rest of the year. By August 1946, reconversion was nearly three quarters complete.¹⁰⁴ In the fall, DoR analysts reported that the pulp and paper and coal sectors were surpassing production expectations. Canada's agricultural output, too, was "substantially above that for 1945."¹⁰⁵ Consumer spending and demand, meanwhile, continued unchecked. As reported by the reconstruction department in November 1946: "Retail sales have continued to increase, and for the first ten months of 1946, are 14% above the corresponding period of 1945. A sample of the sort of increases is as follows: in radios and electronic equipment (76%), furniture (36%), hardware

¹⁰³ LAC, RG2, series 18, vol. 78, file E-20-6, "Current economic conditions in Canada, No. 12," September 1946.

¹⁰⁴ Canada, Department of Trade and Commerce, *Investment and Inflation, with Special Reference to the Immediate Postwar Period, Canada 1945-1948* (Ottawa, 1949), 61; LAC, RG2, series 18, vol. 78, file E-20-6, "Current economic conditions in Canada, No. 11," August 1946.

¹⁰⁵ LAC, RG2, series 18, vol. 78, file E-20-6, "Current economic conditions in Canada, No. 13," October 1946.

(31%), departmental stores' merchandise (19%), family clothing (17%), jewelry (15%), men's clothing (14%), women's clothing (11%), drugs (10%), foods (10%), restaurant meals (6%), shoes (5%)."¹⁰⁶ Finally, DoR projections for 1947 indicated that private investment would continue to increase, unemployment would not climb significantly, demand would stay high, and reconversion would be complete by mid-year.

Yet not every economic assessment was positive. Though underlying economic conditions were strong and reconversion was succeeding, the threat of inflation remained and the government was unprepared to let its guard down until it was sure that the economy could withstand an inflationary assault without falling into recession or depression. For the WPTB, in particular, Canada remained in a state of emergency and inflationary pressures continued to endanger the economic base and the state's organizing ideologies. As the WPTB's November 1946 edition of *Consumers' News* warned:

This is a difficult time... There are shortages, hardships, and *the continuing threat of inflation to be conquered*. The anxiety of the war has passed, and now the Canadian people should all be working together as a team to overcome the problems and difficulties which are the inevitable result of the war effort of such magnitude as ours was... We are now in that second stage of *trying to restore normal conditions*. The task will not be completed, nor can efforts be relaxed, until production overtakes shortages. Until this happens, *we must be on guard against the threat of inflation*.¹⁰⁷

Ottawa's efforts to restore liberal-democratic capitalism and a stable economic base were moving forward and success was on the horizon. But the battle against inflation and the dangers it engendered was not yet over.

¹⁰⁶ LAC, RG2, series 18, vol. 78, file E-20-6, "Current economic conditions in Canada, No. 14," November 1946.

¹⁰⁷ Canada, Wartime Prices and Trade Board, *Consumers' News*, No. 56 (November 1946).

Conclusion

All told, at the end of 1946 the King government could be satisfied knowing that reconstruction was advancing, despite of the difficulties encountered between the late spring and fall. Nonetheless, the experiences of 1946 meant that the King government was wary of prematurely dismissing lingering threats to Canada's economic base and organizing ideologies. Destabilizing factors that had undermined reconstruction in 1946 remained, threatening to damage Canada's fragile reconversion efforts and complicate, delay, or derail the return of a liberal democratic market economy. Inflationary pressures, in particular, continued to trouble the King government. If allowed to run rampant, inflation could still inflict significant harm on national income, investment, and employment. Shortages, a leading cause of inflation, persisted. The labour troubles of 1946 could recur, further exacerbating shortages, inflation, and slowing reconversion. As the year drew to a close, Cabinet still worried about the state of the postwar economic base and the security of Canada's organizing ideologies. While reconversion was progressing and the dire predictions of a recession or depression had not come to pass, the King government was unprepared to desecuritize the protection of these elements of the Canadian state.

With Ilsley's departure from the finance ministry, however, Cabinet was prepared to entertain was a change in tack. Under Ilsley's replacement, Douglas Abbott, Ottawa adopted a more aggressive approach to battle inflation and ensure the resilience of the Canadian economy to inflationary pressures. The next chapter explores the difficulties, crises, and ultimate success, of Abbott's campaign and Canadian reconstruction policy as a whole.

Chapter 5

Success Amidst Consternation, 1947-1948

After a year and a half of peace, the Canadian government was facing the difficult realities of protecting Canada's economic base and organizing ideologies in a time of economic flux and uncertainty. While reconversion was progressing well and unemployment virtually non-existent, strong inflationary pressures persisted, a number of price controls remained in place, labour had shown an ability to impose changes on the government's stabilization policies, and a severe shortage of American dollars threatened to exacerbate shortages, heighten inflation, and possibly stall private investment, all of which could ignite a severe economic downturn. Efforts to ease the inflationary pressures had proved only mildly effective, and the necessity of encouraging private investment and consumer spending meant that more aggressive stabilization measures were out of the question. Moreover, keeping the remaining stabilization measures in place for the foreseeable future ran counter to the aim of restoring a liberal-democratic market economy.

Confronted with these problems and obstacles, in January 1947 the King government adopted an alternate course. Under the leadership of the new minister of finance, Douglas Abbott, the King government decided that, rather than relying on controls to battle inflation and its side-effects, a program of accelerated decontrol would be initiated. Abbott hoped that rapid decontrol would alleviate shortages, the underlying cause of inflation. While stabilization had aimed to reduce the economic base's vulnerability to inflation, accelerated decontrol was designed to confront the inflationary threat directly. Abbott also believed that accelerated decontrol would eliminate the

lingering vestiges of wartime statism, which would help better secure Canada's organizing ideologies. But Abbott's accelerated decontrol program failed to resolve the inflationary problem. Instead, it helped ushered in an unprecedented inflationary wave. In late 1947 and 1948, inflation and increases in the cost-of-living rose remarkably, briefly worrying Canadians and the prime minister. During this period, it appeared that fears of a deflationary recession might come to fruition.

Yet, thanks to the success of Howe's reconversion policies, the Canadian economy was able to withstand this inflationary surge without falling into recession or slowing investment. This resilience to inflation indicated that reconstruction had reestablished a sufficiently strong and stable economic base, one resistant to inflationary bursts and deflationary recessions. What was more, because of the tax cuts and wage increases they had received, Canadians were able to shoulder the 1947-1948 inflationary wave without seeing a significant diminishment of their wartime living standards and hard-earned savings. Enjoying a level of personal economic security unseen since the late 1920s, Canadians gradually abandoned their support of permanent price controls and other socialist/statist policies. The public was unhappy about rapid price increases, but the issue no longer justified extreme remedies or a recasting of the government's role in the state's economic affairs. No serious public challenges to Canadian liberal-democratic capitalism remained. Finally, in April 1948, Canada's American dollar crisis was solved when the United States allowed Western Europe to use Marshall Plan funds to buy Canadian goods. Canada would no longer be burdened with a severe shortfall of American dollars, a development which lessened inflationary pressures, allowed Ottawa

to remove prohibitive import/export controls, and eliminated a last significant obstacle to the establishment of a stable and prosperous postwar economic base.

As William Lyon Mackenzie King prepared to step down as prime minister in late fall 1948, the Canadian government had begun to desecuritize the protection of Canada's economic base and organizing ideologies. Gone were references to economic threats and the uncertainty of Canada's postwar prosperity. A few of the emergency powers the federal executive had commandeered to combat these dangers were to remain in place until 1950, but economic policy was returned to the realm of politics and partisan debate. Without celebration or fanfare, as might accompany victory against a military threat, the Canadian state entered an era of economic and ideological normalcy.

This chapter examines the implementation of Abbott's accelerated decontrol program and the desecuritization of Canada's postwar economic transition. It provides an overview of the motives behind accelerated decontrol and the challenges this policy encountered in 1947-1948. In concluding, the chapter explores the re-politicization of Canadian economic policy in late 1948 and early 1949.

5.1) Abbott Accelerated Approach, 1947

Douglas Abbott was a decisive, self-assured, some would say stubborn, minister of finance. Appointed to that post in December 1946, Abbott was an unabashed champion of Canada's organizing ideologies.¹ Guiding the new minister's thinking from the first was a belief that the time to erase Canada's legacy of wartime statism was at hand. Abbott was determined to end Ottawa's economic management functions during

¹ Library and Archives Canada (LAC), MG32, series B6, vol. 16, "D. Abbott CBC broadcast notes," 15 October 1947; LAC, RG19, vol. 388, file 101-102-38, "Notes for Speech by Mr. Abbott in the debate on the Speech from the Throne," 8 December 1947.

his first year as finance minister. Above all, he wanted decontrol completed by the end of 1947.

When Abbott took over the finance ministry from J.L. Ilesley, Canadians witnessed a dramatic acceleration of price decontrols and subsidy removals. Though they shared the same ends, Abbott did not share his predecessor's or Donald Gordon's cautious outlook on decontrol. Abbott was convinced that rapid decontrol could encourage sufficient production to reduce shortages and that the Canadian economy could weather the short-term inflation that would follow. Consequently, he instituted a vigorous decontrol agenda.

Considering the previous year's warnings about the inflationary effects of decontrol, Abbott's was a risky strategy. Inflation still had the power to reverse the accomplishment of the reconstruction program. But Abbott believed that, in light of strong growth and low unemployment brought on by Howe's reconversion program, the Canadian economy was ready for a decisive push towards full decontrol. Reconversion, he thought, had greatly reduced the vulnerability of the economic base to an inflation-induced downturn. Similarly, Canadian earnings and living standards had risen so high that they could shoulder an increase in the cost-of-living without demanding that the government reintroduce a comprehensive system of price controls. If his plan succeeded and the economy and public withstood the inflationary peak that would accompany accelerated decontrol, the security of Canada's economic base and organizing ideologies would be near guaranteed. It was a gamble the new finance minister was ready to make.

On 11 January 1947, Abbott announced a “further step in the orderly removal of emergency controls.”² Though the economy was still plagued by shortages, he informed Canadians that “the outlook for a better between supply and demand is...beginning to brighten” and that the “menace of soaring prices is beginning to recede.” In fact, Abbott explained, “For the majority of the items being decontrolled, significant price increases are not anticipated.” What was more, the minister outlined, lifting price controls on those goods still in short supply would encourage greater production and encourage producers to sell scarce commodities on the Canadian market, rather than overseas.

The list of goods decontrolled in January 1947 were household equipment and supplies, tools, paints, cement, stone, carpets, fresh fruits and vegetables, most fish, and barbering and hairdressing services. In response to those who worried about the effect of these decontrols on their cost-of-living, production, or construction costs, Abbott reiterated the argument that the WPTB would be better poised to keep an eye on the prices of essential goods if it was relieved from the administration of price controls on unessential items. He assured Canadians that “the list of goods and services which still remain subject to price control contains most of the basic foods, practically all articles of clothing, boots and shoes, most textile home furnishings, coal and wood fuels, the major household appliances and heating and plumbing equipment, automobiles, tires and gasoline, rentals, household laundry services, restaurant prices, freight rates, storage rates, a variety of basic materials such as steel, copper, rubber, lumber and pulp, and certain other goods which are important in production costs such as farm machinery.”³

² LAC, RG19, vol. 388, file 101-102-38, “D. Abbott statement on price control,” 11 January 1947.

³ *ibid.*

Abbott was coy when he suggested that the cost-of-living would be little affected by the January decontrol measures. The finance minister was well aware that his accelerated decontrol program would precipitate a notable increase in living costs. According to finance department estimates, the cost-of-living index was to climb nine points by May 1947. Finance officials noted that “This considerable further rise is approximately equivalent to the increase which occurred in the sixteen months from the end of the war to date.” Because of the rapidity and size of this expected increase in the cost-of-living index, finance officials warned of several difficulties that Ottawa would likely face when the public witnessed the impact of Abbott’s accelerated decontrols. Concerns about living standards would grip the public and there would be “renewed accusations that the government is abandoning the stabilization program.” Labour unions would likely press for higher wages to compensate for the higher cost-of-living. Those firms and sectors whose goods remained under control would complain of discrimination and likely pressure the government to decontrol their wares as well. In short, “This prospective advance in the cost of living will therefore aggravate the pressure toward decontrol and the difficulties of pursuing an orderly and balanced readjustment will be increased by the consumer’s irritation and the producer’s pressure.”⁴

In spite of these premonitions, finance department officials accepted that “this sort of difficulty cannot be avoided in moving from a controlled to a free price structure. Once begun, the process of decontrol must be continued.” What mattered most, the officials insisted, was to “prevent an orderly readjustment from becoming a rout in which we would experience a sharp and ill-founded increase in our price level.”⁵ For his part,

⁴ LAC, RG19, vol. 388, “Future of Price Control,” undated.

⁵ *ibid.*

Abbott was confident that his accelerated approach to decontrol could avoid such a calamity. As long as production rates kept improving and aggregate demand stayed strong, the economy could absorb the anticipated price hike without tumbling into recession. Indeed, thanks to its booming economy, the United States had done just that, though some analysts were predicting an American recession for late 1947.⁶ Economic projections completed by DoR lent credence to Abbott's view that the Canadian economy was equally resilient to downturn in 1947.⁷

According to DoR, 1947 would be a year of record production and employment, solid growth, and relative industrial peace. Demand for Canadian goods both at home and abroad was expected to stay high. Climbing wages and lower income taxes meant that Canadians' purchasing power was still robust. Canadian firms were slated to invest over \$1.7 billion in capital, a fifty-three percent increase compared with 1946. With reconversion nearly four-fifths complete, industrial output was expected to surpass 1946 figures by ten to thirty-five percent, and it was expected that "aggregate output should improve sufficiently to achieve a somewhat better balance between a continuing though perhaps more selective demand, and supply." Lastly, DoR analysts held that labour militancy would begin to subside in 1947. Few strikes were anticipated in key sectors and union leaders were expected to concentrate on indirect means of consolidating and expanding the gains won for their members in the previous year.⁸

Optimistic projections aside, in early 1947 Cabinet thought it wise to further extend the emergency powers of the WPTB until 1948. Although most other federal

⁶ LAC, RG2, series 18, vol. 78, file E-20-6, "Current economic conditions in Canada, No. 14," November 1946.

⁷ *ibid.*

⁸ LAC, RG2, series 18, vol. 78, file E-20-6, "Current economic conditions in Canada, No. 16," January 1947.

emergency powers and orders-in-council would be replaced by legislation or allowed to expire as part of the King Cabinet's efforts to reinstitute liberal-democratic governance in Canada, the authority of the executive to manage the transition to a free market and price structure could not be relinquished yet. Having learned in 1946 how quickly an apparently positive economic environment could sour, the King Cabinet understood the perils of weakening the federal government's powers to manipulate the state's economic affairs. As minister of justice Ilsley explained to the House of Commons, extending the executive's emergency powers was "so important" and the results of not extending such powers "would be so disastrous," that there was no alternative.⁹ Canada would be in a legal state of emergency for another year.

Ministers such as C.D. Howe, moreover, recognized that certain key industries, steel in particular, would require federal oversight and regulation after the rest of the economy had readopted free market practices.¹⁰ Nor did this insight run contrary to reconstruction's aim of protecting Canada's economic base or reconstituting its organizing ideologies. Tory capitalism, after all, was predicated on the notion that government should occasionally intervene to strengthen vital sectors and industries.¹¹

Seeing a buoyant economy with high production and low unemployment, the Conservative opposition charged that the Liberal government was undermining liberal-democracy and growing accustomed to its exceptional powers. Abbott responded by defending the government's commitment to liberal governance and reiterating Ilsley's warning about the dangers of abandoning all exceptional powers before the economic threats facing the state were extinguished:

⁹ Canada, Parliament, House of Commons, *Debates 1947*, 1463.

¹⁰ LAC, MG26 J4, vol. 420, "Cabinet Conclusions," 2 September 1947.

¹¹ See chapter 2.

The course that has been taken has naturally led to accusations that the government is control-minded; that it likes to order people about, and that it is reluctant to let go its wartime authority...there is nothing we would like better than to be able to announce today that all remaining controls may now be safely withdrawn; but we cannot make such an announcement...The government is convinced that to remove such controls now would have the most serious consequences, particularly for those least able to protect themselves.¹²

Though the opposition's charges failed to dissuade Parliament from extending the executive's emergency powers, the Conservatives' questioning of the necessity of these powers indicated that there was a burgeoning movement to desecuritize Canadian economic policy. A state of emergency could only be declared for so long while the economy roared and Canadians felt more confident about their personal economic security. Abbott knew this, but he was unwilling to completely disarm the executive while economic dangers persisted.

Economic developments followed DoR's optimistic projections in the first four months of 1947. "All factors of production" were running at full employment, consumer spending was strong and stable, shortages of key goods such as steel and iron improved, and Canadian exports increased. Several labour disputes occurred in early 1947, though their impact on the generally strong production trends was minimal. For the most part, these work stoppages centered on demands for higher wages. Employers usually relented, resulting in wages climbing nine percent higher than the previous year. Alone among the serious labour disruptions at this time were a series of coal strikes in Nova Scotia and New Brunswick that occurred between February and May 1947. While these strikes hurt

¹² House of Commons, *Debates 1947*, 1938.

coal supplies, the effects were primarily felt in the Maritime provinces, leaving the rest of Canada largely unscathed.¹³

In light of these favourable conditions, Abbott pressed ahead with more decontrols. Before the end of the winter, price ceilings on foods products such as eggs were lifted and meat rationing was ended. Next, on 1 April 1947, the finance minister announced his second major decontrol step of the year.¹⁴ Among the items released from price controls were confectionaries, processed meats, most fowl, wool products, packing materials, a number of large household appliances, including ranges, refrigerators, and washing machines, and all motor vehicles, chemicals, plastics, and footwear. Abbott also ended subsidies for all imported and domestic fuels, and lifted price ceilings on coal, coke, charcoal, and fuelwood to help producers compensate for lost subsidy revenues. As in January, the finance minister tried to assuage fears of how these decontrols would affect living costs. He told the public that “Any price adjustments which follow the present step will, we believe, bring us smoothly to the levels which are now appropriate.” Furthermore, Abbott underlined that “The list of goods and service which remain under control covers many of the basic necessities of life in food, clothing, and shelter.”¹⁵ Yet the finance minister refrained from promising that increases in living and production costs would be minor or incidental. He knew otherwise.

Later in the month, Abbott tabled his first federal budget.¹⁶ The 1947 budget projected a surplus of \$350 million, the first since the end of the war. Married with

¹³ LAC, RG2, series 18, vol. 78, file E-20-6, “Current economic conditions in Canada, No. 19,” April 1947; Judy Fudge and Eric Tucker, *Labour Before the Law: The Regulation of Workers’ Collective Action in Canada, 1900-1948* (Toronto: Oxford University Press, 2001), 292.

¹⁴ LAC, RG19, vol. 388, file 101-102-38, “D. Abbott statement on decontrol,” 1 April 1947.

¹⁵ *ibid.*

¹⁶ Canada, Department of Finance, *1947 Budget Speech* (Ottawa: King’s Printer, 1947)

decisions to forgo further corporate tax reductions and measures to cut ever deeper into government expenditures, this surplus seemed to indicate that the King government was attempting to counter the alarmingly inflationary business cycle. Indeed, the government would later claim that the 1947 budget was aiming to siphon excess purchasing power out of the economy.¹⁷ Though the choice to further cut public expenditures and forgo additional corporate tax cuts lends credence to this interpretation, the reality was more complex. Firstly, the budget surplus was not a reaction to the inflationary environment. On the contrary, the surplus was a consequence of the economy's inflationary currents. Second, instead of using fiscal policy to curb inflation, Abbott hoped the budget would allow Canadians better to absorb the higher prices resulting from his accelerated decontrol program. Evidence of this motive is seen in the 1947 budget's personal income tax reductions. The budget cut revenue from personal income taxes by eleven percent, which translated to an income tax reduction of approximately twenty-seven percent for most Canadians.¹⁸ With this extra portion of their income available for spending, rising prices would have a lesser impact on Canadians' purchasing power or standard of living. This policy was not without risk, since the infusion of more purchasing power into the economy could exacerbate inflationary pressures. But for Abbott the aim was merely to help the public stomach the initial, temporary price hike that flowed from accelerated decontrol. Preventing the public from insisting on the reintroduction of controls was vital for the reestablishment of a free price and market structure.

For the CCF, the 1947 budget was hubristic and imprudent. As they had since the end of the war, members of the socialist party warned Canadians that the Liberal

¹⁷ See *Investment and Income*.

¹⁸ Robert M. Campbell, *Grand Illusions: The Politics of the Keynesian Experience in Canada, 1945-1975* (Peterborough: Broadview, 1987), 74.

government was courting disaster by abandoning centralized economic planning and controls. Never missing an opportunity to remind Canadians of the Great Depression and the economic calamity that followed the First World War, the CCF sowed seeds of doubt about the Liberal's determination to withdraw the government from the state's economic affairs. As CCF member of Parliament Max Campbell complained to the House of Commons:

I think we can all agree that we are living in [with] a great degree of prosperity, at least a great many of us; but I am worried as to what the future holds regarding that prosperity...When prices start falling there is no telling where they will stop, and this may result in a panic and possibly develop into a major depression. What will happen to hundreds of thousands of our people if we should go into another recession or depression without having decided who is to be responsible for such important matters as unemployment and other problems? What I want to know is: How long will it last? That is the major problem we in this House of Commons must face. Shall we hold out position? Are we going forward to new levels where all our people have a high standard of living? Or shall we slide back into another depression?¹⁹

While times were good, these calls failed to resonate with the public. But the possibility remained that Canadians might turn to the CCF if the socialist party's admonitions proved prophetic. The King Cabinet could not take the public support of liberal-democratic capitalism for granted, at least not yet. As Abbott had argued in late 1946, it was still necessary to show that the free market was resilient to downturns and not inherently prone to failure.

Two weeks before Abbott tabled his budget before Parliament, Donald Gordon resigned as chairman of the WPTB. Gordon's biographer has postulated that the WPTB chairman's resignation was mainly motivated by personal factors. Gordon had long been disliked by labour leaders, price control critics, and farmers for his staunch adherence to a comprehensive stabilization program and repeated reluctance to ease controls before the

¹⁹ House of Commons, *Debates 1947*, 3255-3256.

inflationary threat had passed. He was often accused of wielding his WPTB powers in a dictatorial fashion, dismissing alternate viewpoints and holding to stabilization theories that ran contrary to actual economic realities.²⁰ Following his November 1946 radio broadcasts, moreover, discomfort with Gordon also spread within the King administration. The broadcasts made Gordon a minor celebrity. This fed jealousies within the government and allowed Gordon's critics to portray his gruff, unwavering personality as symptomatic of Ottawa's uncaring, autocratic attitude towards reconstruction.²¹ As the public became more disillusioned with decontrol in early 1947, keeping Gordon at the head of the WPTB became a liability. Gordon became too controversial and divisive a figure. Cabinet concluded that it was time for the chairman to leave.²² In announcing Gordon's departure, prime minister King was nonetheless sure to laud his service to the state in a precarious time. "I may speak for the Canadian people as a whole," noted the prime minister, "when I express to Mr. Gordon our thanks for the invaluable service he has rendered our country at a time of its greatest need."²³

Gordon's resignation probably reflected the shift in decontrol policy inaugurated by Abbott. Given the prudent stance he had taken toward price control since 1944, it is likely that Gordon was uneasy with Abbott's accelerated decontrols. Seen from this perspective, Gordon's resignation can be read as a sign of the significant shift in the tempo of decontrol and risk acceptance that Abbott shepherded through Cabinet. Previously one of the most influential officials in the federal government, Gordon may

²⁰ Joseph Schull, *The Great Scot: A Biography of Donald Gordon* (Montreal: McGill-Queen's University Press, 1979), 112.

²¹ *ibid.*

²² *ibid.*, 105.

²³ Canada, Wartime Prices and Trade Board, *Consumers' News*, No. 60 (April 1947).

have resigned from the WPTB because his advice no longer held sway with the minister of finance.

Shortly after the April decontrol list and 1947 budget were released, the inflationary consequences of Abbott's policies began appearing. The already mounting cost-of-living rose by another 3.5 percent, double the amount Canadians experienced after the decontrols of April 1946.²⁴ Coupled with the price increase that occurred between January and March, this meant that living costs in the first five months of 1947 were nearly triple those experienced during all of 1946. For analysts at DoR, this trend was worrisome. Of particular concern was that "the accumulated backlog of consumer and investment demand is being eaten into at an increasing rate" because of higher prices for both Canadian goods and items imported from the United States.²⁵ If consumer and investment demand were too deeply eroded, the DoR analysts warned, "our present 'transitory' prosperity" would prove short-lived, as a breakdown in aggregated demand would throw Canada into recession. Despite a prevailing mood of cautious optimism, DoR insisted that "The economy...faces a period of *continued danger*."²⁶ Official Ottawa's securitization of the economic base persisted.

A second threat the Canadian economic base also emerged in the late spring and summer of 1947. In April 1947, DoR noted that Canada was experiencing a shortfall of U.S. dollars, meaning that Canadians' ability to buy American goods was diminishing.²⁷ Since American imports made up a significant portion of those items used by industry for

²⁴ LAC, RG2, series 18, vol. 78, file E-20-6, "Current economic conditions in Canada, No. 19," April 1947.

²⁵ LAC, RG2, series 18, vol. 78, file E-20-6, "Current economic conditions in Canada, No. 20," July 1947.

²⁶ LAC, RG2, series 18, vol. 78, file E-20-6, "Current economic conditions in Canada, No. 21," August 1947. Emphasis added.

²⁷ This paragraph is based on R.D. Cuff and J.L. Granatstein, *American Dollars, Canadian Prosperity: Canadian-American Economic Relations, 1945-1950* (Toronto: Samuel-Stevens, 1978), chapter 2.

manufacturing and capital investments, and because wares from the United States were prominent on the list of 'basic necessities' for living, this shortage of American dollars was a grave problem. Three factors contributed to Canada's U.S. dollar shortfall. The first was the summer 1946 decision to bring the Canadian dollar up the par with its American counterpart. While this lessened the inflationary impact of higher American prices, it allowed Canadians to import more goods from the United States, leading to a greater outflow of American dollars from Canada. Indeed, in the first four months of 1947, Canadian imports from the United States were fifty percent higher than in the previous year. Second, American prices kept rising throughout late 1946 and early 1947. And as the cost of American imports also rose, more U.S. dollars were required to buy these imports. Finally, in the past, European purchases of Canadian exports had filled Canada's coffers with American dollars. But with Europe's postwar economies in shambles and taking longer to recover than expected, and with European purchases of Canadian goods being financed with credit provided by Ottawa, the flow of U.S. dollars from Europe was weak. Under these circumstances, the King government recognized that Canada had few options. Either Ottawa would need to impose punitive measures to slow the drain of American dollars or some means would have to be devised to help Europeans pay for more Canadian exports with U.S. currency. While the King government could pursue the former, limiting American imports threatened to hurt production, capital investment, and increase inflationary pressures since fewer goods from the United States would exacerbate shortages. The latter option, meanwhile, depended on the goodwill of the United States Congress and Truman administration.²⁸

²⁸ *ibid.*

Steeply climbing prices and the burgeoning U.S. dollar shortage failed to deter Abbott's decontrol plans. On 5 June 1947, price ceilings were lifted from dairy products, metals, and restaurant meals.²⁹ Eviction rules were also loosened, the first change to rent controls since their inception. On 31 July 1947, the finance minister asked Cabinet to approve a significant decontrol step for mid-September.³⁰ "The action," Abbott explained, "would represent the last large operation in decontrol and would in effect bring to an end the operations of the Wartime Prices and Trade Board." The September decontrol would thrust all but a few essential products back into a free price and market system, and an enduring symbol of Canada's statist wartime regime, the WPTB, would be gutted. Abbott's scheme envisaged the removal of price ceilings on all commodities except sugar, oils and fats, rentals, and feed grains. Cabinet hesitated before approving the September decontrol. A report from the finance minister's own department cautioned that "The price increases which will follow the removal of all ceilings other than sugar and oils and fats would be very substantial."³¹ Overall, expected price increases for meat, flour, clothes, and leather were expected to raise the cost-of-living index by three to four points, a substantial amount. Were the cost-of-living index to climb in this way, the report predicted that widespread public protest and agitation would follow. Nor would these protests be mounted by an insignificant portion of the Canadian population. "It is a pity to dismiss such agitation as being stimulated by communist agitators," noted the report, "because these movements, irrespective of the character of their leadership,

²⁹ LAC, MG26 J4, vol. 420, "Cabinet Conclusions," 5 June 1947.

³⁰ LAC, MG26 J4, vol. 420, "Cabinet Conclusions," 31 July 1947.

³¹ LAC, RG19, vol. 388, file 101-102-38, "Pros and cons of September decontrol, a report by C.H. Herbert," 16 July 1947.

represent the general opinion of a very large body of people.”³² Consequently, the report advised that the September decontrol be delayed.

Yet Abbott believed September was the opportune moment. Employment and incomes would be at their seasonal peaks during the late summer, allowing the public to absorb the expected price increases when they could best afford them.³³ In addition, the finance minister recognized that delaying decontrol would merely postpone the inevitable.³⁴ Consumers and firms would inevitably have to face unpleasant living and production cost increases, regardless of when price ceilings and subsidies were removed; there was no magic date at which painless decontrol could take place. Abbott understood that the longer Ottawa waited to complete decontrol, the more reliant on controls Canadians could become;³⁵ price ceilings and subsidies would develop into a crutch. Were this to happen, reconstruction’s aim of returning the state to a free market system would fail in a significant area: unless producers and retailers operated in a free price structure, a primary component of capitalism would be absent in Canada. Furthermore, if controls were retained over some goods, calls to bring decontrolled items back under price ceilings would surely arise. Before long, the entire process of decontrol might be reversed due to pressure from consumers wedded to the comfort offered by coercive price controls and inefficient subsidies. As Abbott argued in the House of Commons, “make no mistake about it, those who are advocating the reintroduction of overall price control, with the rationing and detailed direction of the economy that would go with it, must be thinking of keeping those controls in effect for a considerable time, otherwise they are of

³² *ibid.*

³³ LAC, MG26 J4, vol. 420, “Cabinet Conclusions,” 31 July 1947.

³⁴ LAC, RG19, vol. 388, file 101-102-38, “Notes for Speech by Mr. Abbott in the debate on the Speech from the Throne,” 8 December 1947.

³⁵ *ibid.*

little value.”³⁶ Far better, then, to remove government intervention and compel Canadians to readapt to a free price structure while employment and incomes were high, and overall economic conditions were prosperous.

Cabinet deferred to Abbott. His September decontrol plan was approved, although Howe successfully lobbied for the retention of price ceilings on iron and steel products vital for capital investments since these were still plagued by severe shortages.³⁷ Similarly, it was decided that the ceiling on meat and feed grains -as well as subsidies for the latter- were to be retained. To combat public protests, Cabinet agreed on a publicity campaign that promoted “the continuing concern of the government in the maintenance of reasonable price levels and in particular to the continuing authority of the Wartime Prices and Trade Board in that connection.”³⁸

Canadians were informed of the King government’s decontrols on 14 September 1947. As agreed by Cabinet, price ceilings were lifted on all goods except sugar, meats, wheat coarse grains, principal oils and fats, certain dried fruits, and iron and steel and tin in primary forms.³⁹ Controls on rents were also preserved. To soothe public fears of exponentially increasing prices, the King government announced that the WPTB would keep a watchful eye on unjustified price rises and “reimpose ceiling prices where it is satisfied that unreasonable and unjust price increases have occurred.”⁴⁰

Anger over the September decontrol emerged rapidly. Within a few days of the decontrol measure, newspapers ran stories detailing the price surges wrought by the policy. Purportedly soaring bread prices drew special attention. In a memorandum to the

³⁶ *ibid.*

³⁷ LAC, MG26 J4, vol. 421, “Cabinet Conclusions,” 2 September 1947.

³⁸ LAC, MG26 J4, vol. 421, “Cabinet Conclusions,” 11 September 1947.

³⁹ LAC, RG19, vol. 388, file 101-102-38, “Statement on decontrol of prices,” 14 September 1947.

⁴⁰ *ibid.*

prime minister, Cabinet secretary A.D.P Heeney concluded that the “hysterical atmosphere” was largely being fed by misinformation; price increases had been “very moderate” and “newspaper reports have been exaggerated.”⁴¹ Hoping that the facts would prevail and public anger would subside, Abbott defended his decontrol measures in a radio address of 15 October. He reminded Canadians that, while they were paying more for staples, their taxes had been significantly lowered as well. The finance minister then turned to ideology. “We believe,” he told his audience, “that in peacetime, when all our production can be used to satisfy human needs instead of being used for destruction, prices should be free to move up and down in order to stimulate production when demand increases and to stimulate demand when production reaches high levels. That is how a free economy works.” While it was true, Abbott continued, that “In order to survive, the system of private enterprise --the greatest productive system the world has ever known must justify itself by results,” the low unemployment rates, outstanding productive growth, and high incomes that flourished since the end of the war showed that the free market system was proving its worth.⁴² Higher prices were distasteful, but relative to the other benefits Canadians enjoyed thanks to the state’s orderly return to capitalism, the discomfort felt by the reintroduction to a free price structure was minor.

Canadians were unmoved. By 20 October, the Privy Council Office (PCO) was reporting that “The government is confronted with a very serious situation arising out of public concern over increasing prices.”⁴³ Evidently the public was deaf to the government’s rationales. “No matter how much explaining is done,” the PCO noted, “the

⁴¹ LAC, MG26-J4, vol. 421, “Prices policies: present situation,” 25 September 1947; LAC, RG19, vol. 3993, file W-2-5, “A.D.P Heeney to prime minister re prices policy,” 22 September 1947.

⁴² LAC, MG32, series B6, vol. 16, “D. Abbott broadcast on CBC,” 15 October 1947.

⁴³ LAC, RG2, series 18, vol. 78, file E-20-5, “J.R. Baldwin memorandum: Government action in respect of price levels,” 20 October 1947.

public will blame the government unless the government itself is taking some concrete measures.” Worried, prime minister King concluded that the government should establish “machinery to investigate the reasons for present costs to the consumer, to give publicity to findings, and where an undue price spread appears, to take remedial action.”⁴⁴ As the only federal body with the authority to act against higher prices, this oversight role would naturally fall to the WPTB. Yet, as Abbott had advocated, the Board had been shrunk to virtual non-existence following the September decontrols. While the Board possessed the power to reintroduce controls, it lacked the administrative capacity to monitor more than a few price ceilings.⁴⁵ Though the WPTB could be reconstituted, this could signal the intent to revive a comprehensive price ceiling, something Cabinet was determined to avoid, despite the public protests. Indeed, regardless of the price panic and the prime minister’s anxiety, Abbott remained determined to press ahead with his decontrol agenda. An early October DoR study reinforced the finance minister’s view that incomes and tax reduction had grown at a higher rate than the cost-of-living.⁴⁶ Canadians, he surmised, could afford relatively higher prices without reducing their living standards. A day after the PCO warned Cabinet about the public’s growing hostility, Abbott announced the lifting of price ceilings on feed grains and meat, and a week later, the ceiling and ration on sugar was removed.

As the public’s discontent intensified in late October and November 1947, Cabinet contemplated ways to appease Canadians without undermining Abbott’s policies. The prime minister reiterated his calls for “a permanent board which might keep prices

⁴⁴ *ibid.*

⁴⁵ *ibid.*

⁴⁶ LAC, RG2, series 18, vol. 78, file E-20-6, “Current economic conditions in Canada, No. 23,” October 1947.

under constant review, receive complaints and make appropriate investigations.”⁴⁷

Cabinet also contemplated the prosecution of known speculators and profiteers who had raised prices to unreasonable levels. This would show decisiveness and lay blame for excessive prices where many in the King administration thought it belonged, with unscrupulous businesspeople.⁴⁸ Yet, in the end, the government could not avoid the reintroduction of ceilings on goods whose price increases far surpassed official expectations. On 26 November, price controls were once again imposed on canned fruits and vegetables, a staple commodity for most Canadians with winter approaching.

Abbott refused to go farther. He would not reinstall ceilings on goods whose price increases were deemed normal or affordable. On 9 December 1947, Abbott reiterated his opposition to ‘re-control’ and attacked those urging the government to reintroduce price ceilings:

I suggest to honorable members that if after the most devastating and disruptive war in history we can level out a retail price level 20 to 25 per cent above normal, and a wholesale price level 40 to 45 per cent above normal or even somewhat higher, we have preserved a reasonable degree of equilibrium.

Does anyone seriously believe that the price of wheat will ever return to 77 cents per bushel in the foreseeable future and that consumers should continue to buy flour and bread based on 77 cent wheat? Or to take another example, would it be reasonable for the Government to continue to subsidize raw cotton down to the prices which were just about one-third of prevailing prices on world markets? Yet, just as soon as anomalies such as these are corrected, others begin to appear and it is necessary to have a complete readjustment to the realities of the present-day conditions. The same thing would happen again if we were to reinstitute an overall price freeze as from the present date or to attempt to “roll back” prices to levels existing at some date in the past.

Moreover, the Government, even if it were inclined to undertake the task, has to recognize that in a country as large as Canada, with so many diverse interests, detailed planning and control of domestic prices and supplies presents almost insurmountable difficulties. It was a difficult enough task under wartime conditions, when the whole country was united for the purpose of winning the war, to police the price ceiling and to make adjustments where they appeared

⁴⁷ LAC, MG26 J4, vol. 421, “Cabinet Conclusions,” 28 October 1947.

⁴⁸ LAC, MG26 J4, vol. 421, “Cabinet Conclusions,” 4 December 1947.

necessary. I ask honorable members to consider how much more difficult it would be to fix appropriate circumstances for the great variety of goods and services produce and consumed in Canada and to make the constant day-to-day adjustments that would be required. I have no doubt that it would be necessary not only to revive the Wartime Prices and Trade Board as it was during wartime, but to multiply its staff many times over to restore the kind of controls that are being advocated.

In short, the Government's price control policy for the future is one of vigilance. We seek authority to impose controls in order to prevent extortion, but we do not intend to use that authority to put the whole economy of the country under a rigid bureaucracy.⁴⁹

In effect, Abbott was telling Canadians that they could choose one of two paths, a free market and liberal regime, or a controlled economy and statism. The government was fighting to secure Canada's return to liberal-democratic capitalism, while the advocates of price control would sacrifice liberties for the sake of an unmanageable, autocratic effort to regulate Canadians' economic affairs. Given the unparalleled prosperity and standards of living Canadians were enjoying under a nearly completely revived capitalism system, the finance minister could hope that the public would recognize that the free market was 'working' and not worth sacrificing for lower prices. He again made his case to the House of Commons on 17 December:

I have been told that there is a tendency among generals to fight the last war instead of the war ahead. I think that is the tendency of those who are urging now that we can continue over-all price controls instead of peacetime price control policy...Any system of over-all price control involves over-all detailed direction of the Canadian economy.

I say that unless this country is prepared to embark upon a completely controlled and completely directed economy, then we cannot go back in peacetime to over-all price ceilings. That is entirely apart from whatever our rights might be under the constitution as it exists.⁵⁰

⁴⁹ LAC, RG19, vol. 388, file 101-102-38, "Notes for Speech by Mr. Abbott in the debate on the Speech from the Throne," 8 December 1947

⁵⁰ Canada, Parliament, House of Commons, *Debates 1948*, 94-95.

Alongside the challenges of high prices and public protests, in the fall of 1947 the King government was forced to undertake exceptional measures to preserve Canada's dwindling American dollar reserves. Despite the best efforts of Canadian negotiators, American officials were too preoccupied by and skeptical about Ottawa's U.S. dollar concerns in the summer and early fall of 1947. Not only did the United States have to worry about the economic plight of its other Asian and Western European allies, but Canada's prosperity led American officials to downplay the severity and harmful consequences of its northern neighbour's dollar crisis.⁵¹

Although Washington's dismissive attitude irritated Canadian negotiators, the American focus on Europe's economic troubles came with a silver lining. In June 1947, George Marshall, the U.S. secretary of state, proposed a massive, American-funded European reconstruction program.⁵² Called the European Recovery Program (ERP) but better known as the Marshall Plan, the ERP would inject billions of American dollars into a comprehensive, pan-European economic revival effort. For Canada, the immediate attraction of the ERP was the billions of American dollars Europeans would use to buy raw materials, foodstuffs, and other goods. Were the United States to allow ERP recipients to purchase Canadian goods, Canada's stocks of American dollars would soon be replenished. Unfortunately for Ottawa, there was no guarantee that the ERP would permit purchases in Canada or that the U.S. Congress would approve the Marshall Plan, either way.⁵³

⁵¹ Cuff and Granatstein, *American Dollars, Canadian Prosperity*, 43-53.

⁵² See Melvin P. Leffler, *A Preponderance of Power: National Security, the Truman Administration, and the Cold War* (Stanford: Stanford University Press, 1992).

⁵³ Cuff and Granatstein, *American Dollars, Canadian Prosperity*, 61-63.

Given the uncertainty surrounding the ERP, Abbott knew that emergency measures to preserve U.S. dollars had to be kept in mind. Topping the list of possible measures were import restrictions on American goods. Import restrictions could take the form of outright bans on certain U.S. imports or prohibitive price markups on American goods. Though Cabinet was loathe to ban American imports, threatening to do so helped convince American officials that the Canadian U.S. dollar shortage was serious. Markups on American goods entering Canada, on the other hand, were an unpleasant but increasingly likely option by October 1947. While Washington had offered Ottawa a tacit promise that the ERP would allow purchases from other states in the western hemisphere, Congressional approval of the Marshall Plan was months away, at best. In the interim, Canada's U.S. dollar reserves would continue to plummet. Nonetheless, there were strong arguments against imposing markups on American imports. C.D. Howe, for instance, was adamant that markups would cripple industrial modernization, expansion, and other capital investments, since these relied heavily on American commodities and foreign investment from the United States. Higher prices for American goods, moreover, would worsen inflation and living costs in Canada. Notwithstanding these collateral costs, by mid-November Abbott and finance department officials were convinced that the consequences of a depleted U.S. dollar reserve justified markups on at least some American imports.⁵⁴

On 14 November 1947, Cabinet approved the imposition of a twenty-five percent excise tax on several imported durable goods, including all electrical appliances, oil burners, luxury and sporting products, and automobiles. Other items were subjected to quotas, while a few were completely banned. In addition, Ottawa secured a \$300 million

⁵⁴ *ibid.*, 54-63.

loan from the Export-Import Bank to bolster Canada's meager U.S. dollar reserves. For a government committed to freer trade and a state heavily reliant on American imports, the November restrictions were a difficult burden, and would be more difficult still if the already unpopular price increases climbed ever higher due to the excise taxes. Thankfully for the King government, Canadians largely ignored the news and the American press was forgiving.⁵⁵ What was more, Cabinet could find solace in a possible passage of the ERP in the coming year. As 1947 came to an end, the King government hoped that time, American generosity, and public patience would allow Canada to surpass the remaining, but diminishing, threats to its economic base and organizing ideologies.

5.2) Climax and Denouement, January-October 1948

Canada's economic prospects for 1948 were encouraging.⁵⁶ Unemployment in January of that year stood at two percent and was expected to stay low throughout the year. Though import restrictions were expected to slow private investment, a promising level of industrial expansion and modernization was nonetheless anticipated. Higher prices were deemed likely to lower consumer spending, but only marginally. Analysts at DoR did not expect fewer consumer purchases to affect production levels. Indeed, production rates were poised to increase. Incomes, furthermore, were anticipated to surpass inflation and increases in the cost-of-living, ensuring that Canadians standard of

⁵⁵ *ibid.*, 60.

⁵⁶ LAC, series 18, vol. 78, file E-20-6, "Current economic conditions in Canada, No. 26," January 1948; LAC, RG2, series 18, vol. 78, file F-205, "Employment and Income in Canada: Outlook for 1948 (First Report)," February 1948.

living would be stable. On the whole, the Canadian economy was projected to enjoy yet another year of growth and prosperity.⁵⁷

Within Cabinet, however, the feeling was still one of unease. While the government believed that Abbott's decontrols would bring Canadian prices in line with world levels, Canadian prices had actually surpassed world levels in 1947.⁵⁸ Public opposition to this price surge continued, leading the prime minister to worry about the political and ideological consequences of Canadians' discontent. Seeing his legacy and the aims of reconstruction jeopardized by Abbott's cavalier approach to decontrol, King decided the time had come to reign in his finance minister.⁵⁹ Under pressure from the prime minister and the new chairman of the WPTB, K.B. Taylor, Abbott was forced to abandon his accelerated decontrol program and embrace a more cautious approach reminiscent of the one pursued by J.L. Ilsley and Donald Gordon in 1945-1946. Notably, on 15 January 1948, Abbott announced that controls were being reintroduced on meat, butter, fertilizers, and fruits and vegetables. In addition, the finance minister informed Canadians that existing controls on canned fruits and vegetables, primary iron and steel, and rents were to be "continued in effect until circumstances justify their removal."⁶⁰ Moreover, Abbott declared that the government was extending the emergency powers of the WPTB until 31 March 1949, guaranteeing that the Board would be able to counter any further immoderate price increase. Although the finance minister was careful to again explain that "The government does not propose to return to any general system of over-

⁵⁷ LAC, RG2, series 18, vol. 78, file F-205, "Employment and Income in Canada: Outlook for 1948 (First Report)," February 1948.

⁵⁸ LAC, RG2, series 18, vol. 78, file E-20-5, "K.W. Taylor to D. Abbott," 13 January 1948.

⁵⁹ LAC, WLMK Diary, 7 January 1948.

⁶⁰ LAC, RG19, vol. 388, file 101-102-38, "Statement by D. Abbott re price control," 15 January 1948.

all price ceilings,” Cabinet was determined to show Canadians that it would no longer be dismissive of or complacent about their increased living costs.⁶¹

January 1948 also saw the creation of a Parliamentary committee on prices. Formed at the behest of King and Ilsley, the committee served three ends.⁶² First, the body would help deflect charges that Ottawa was doing nothing to address the price crisis.⁶³ Next, Cabinet hoped that the committee would show Canadians that the increases in prices and living costs were not merely caused by decontrol. Global price pressures, necessary price adjustments, labour’s pursuit of higher wages, and unscrupulous businesspeople deserved blame as well, Cabinet believed. A fair-minded public committee, King believed, would publicize this point.⁶⁴ Indeed, as King explained to the House of Commons, “If public opinion is to be effective and of national service, it is very important that opinion be clearly informed. The trouble with the situation today is that there is not sufficient knowledge of the facts to enable public opinion to be formed intelligently.”⁶⁵ Lastly, the government supposed that the committee would highlight ways of addressing the price crisis --called the “most difficult of all problems” by the prime minister-- that did not involve the reestablishment of a comprehensive system of controls.⁶⁶

Calls for a return to such a general system of controls heightened between January and May 1948. On 17 April, for instance, the chairman of the National Roll Back Prices Conference handed prime minister King a petition signed by over seven hundred

⁶¹ *ibid.*

⁶² LAC, WLMK Diary, 13 January 1948.

⁶³ *ibid.*

⁶⁴ *ibid.*

⁶⁵ Canada, Parliament, House of Commons, *Debates 1948*, 747.

⁶⁶ LAC, WLMK Diary, 13 January 1948.

thousand “housewives and consumers,” demanding that foods be returned to their January 1946 prices.⁶⁷ Organized labour mounted campaigns to compel the federal government to reinstitute comprehensive and rigid price controls.⁶⁸ Confronted with this nagging tide of criticism, Cabinet recognized that stronger anti-inflationary measures were necessary to prevent ever higher living costs and finally silence demands for a socialist/statist solution to the price crisis.

On 18 May 1948 Abbott tabled his second federal budget. Markedly anti-inflationary in its prescriptions, the 1948 budget diluted many of the expansionary fiscal policies found in the government’s three previous peacetime budgets. Personal income taxes were cut by only two to three percent, representing a reversal of Abbott’s previous belief that large tax reductions would allow Canadians to painlessly absorb increases in the cost-of-living. Corporate taxes were left intact. Because improved production rates had failed to alleviate inflationary pressures, the will was lacking to give business further incentives to expand, especially since these incentives had contributed to the inflation environment Canada was experiencing. The 1948 budget purposely committed the federal government to a large surplus, which would extract excessive purchasing power from the economy. Abbott also announced that public expenditures would be further reduced.⁶⁹ Finally, shortly after the budget was released, interest rates were slashed and the money supply was tightened; the period of easy money that characterized the early postwar was over.⁷⁰ Unpopular owing to its small tax cuts, the 1948 budget included a

⁶⁷ LAC, MG26-J4, vol. 421, “Petition for re-imposition of price controls,” 19 April 1948.

⁶⁸ LAC, RG2, series D-19, vol. 70, file D-15-2, “Canadian Congress of Labour to prime minister,” 10 August 1948.

⁶⁹ Canada, Department of Finance, *1948 Budget Speech* (Ottawa: King’s Printer, 1948).

⁷⁰ LAC, MG32, series B6, vol. 16, “D. Abbott article for *Finance* magazine,” 23 June 1946.

significant number of anti-inflationary fiscal policies aiming to shore up the King government's credibility as a defender of Canadians' standard of living.

In June 1948, King's annoyance with Abbott turned into outright hostility. With his government's popularity dropping and fellow Liberals accusing Cabinet of having an "icy cold" attitude towards the well-being of Canadians,⁷¹ the prime minister became convinced that something needed to be done to prevent "the Finance Dept. by its economic theories to help to destroy the govt. which it is already succeeding in doing by its policies over the last year or two."⁷² Indeed, believing that the price crisis was "the most serious [situation] the govt. has faced yet" and worrying that the CCF was gaining in strength, King was prepared to embrace remedies to the price crisis that were "not orthodox from a finance point of view."⁷³

Abbott would have none of it. From the finance minister's perspective, King's grasp of Canada's financial and economic circumstances was tentative, and Abbott refused to entertain solutions to the price crisis that contravened the aim of reestablishing a free price and market system. Howe, who shared Abbott's grasp of the economy's resilience, sided with the finance minister. With no recession in sight, unemployment essentially non-existent, and standards of living relatively stable, both Howe and Abbott were adamant that the government should stay the course and endure what they saw as the public's fleeting anger at rising prices.⁷⁴ King, aging, increasingly confused, and unable to debate the ministers of finance and reconstruction on the facts of matter,

⁷¹ LAC, WLMK Diary, 17 June 1948.

⁷² *ibid.*, 15 June 1948.

⁷³ *ibid.*

⁷⁴ *ibid.*, 17 and 22 June 1948.

reluctantly backed down and awaited news of CCF advances in three upcoming federal by-elections and four provincial general elections.

The prime minister's concerns were partially confirmed, but mostly allayed. In Ontario, the CCF gained fourteen seats, won the riding held by premier George Drew, and became the official opposition. The CCF also won all three federal by-elections, shrinking the King Liberals' majority in the House of Commons to four seats. In light of these results, *Time* magazine reported that the Liberals would be forced to succumb to the CCF's calls for a return to a comprehensive system of price controls.⁷⁵

Yet, within a few weeks, the febleness of Canadian socialism was exposed. On 24 June the CCF government in Saskatchewan lost sixteen seats. Though the CCF held on to power, the results were seen as a blow to the party and its policies.⁷⁶ Four days after the Saskatchewan election, the Liberal Party in New Brunswick won reelection with a solid majority, as did the Union Nationale in Quebec a week later. Though the King Liberals found little to celebrate in the reelection of the Union Nationale, the results of the provincial elections tempered worries that the price crisis was driving Canadians towards socialism. While the by-elections showed that the King Liberals' partisan ambitions were being undermined by the rising cost-of-living, this had not strengthened doubts about the underlying economic and ideological goals of reconstruction. After these elections, the CCF diluted its socialist policies to conform with Canadians' growing sense of well-being and stable living standards under the restored free market.⁷⁷ In spite

⁷⁵ "At the Door," *Time Magazine*, 21 June 1948.

⁷⁶ "Line Squall," *Time Magazine*, 5 July 1948.

⁷⁷ Walter D. Young, *The Anatomy of a Party: The National CCF, 1932-1961* (Toronto: University of Toronto Press, 1969), 113, 123-124. As Young notes regarding the 1948 CCF platform (p.124): "The nostrums of the thirties were no longer strictly applicable in a society that was increasingly affluent and in which there seemed to be less social and economic injustice."

of their dissatisfaction with the federal Liberals' handling of the price surge, the political-economic threat to Canada's organizing ideologies was becoming ever weaker and effectively non-existent any longer.

King linked the New Brunswick Liberal win to the report of the Parliamentary committee on prices.⁷⁸ Released shortly before the provincial election, the report and the prime minister's pledge to act on its recommendations answered charges that Ottawa was ignoring the price issue. To the relief of Abbott and Howe, the report fell far short of demanding the reintroduction of widespread price controls. The report instead recommended the creation of a Royal Commission on Prices to study the causes of the price crisis. It also urged the government to take legal action against "flagrant profiteering" and to impose a special tax on "unreasonable business profits." With these recommendations, the report put the blame for higher prices on the private sector, rather than on government policy. The report also suggested a "temporary reimposition of controls where necessary."⁷⁹

In line with the price committee's recommendations, on 30 June Cabinet approved the creation of a Royal Commission on Prices.⁸⁰ The Commission would continue the work of the Parliamentary committee and table its own report on the sources of the dissipating price crisis. In August, Abbott reintroduced price ceilings on bread and flour. That same month, however, Abbott announced the decontrol of all oils, fats, and soaps.⁸¹ The last significant stabilization policy decisions of 1948, the August re-

⁷⁸ LAC, WLMK Diary, 25 June 1948.

⁷⁹ LAC, MG26 J4, vol. 421, "Recommendations of the parliamentary committee on prices," 2 July 1948.

⁸⁰ LAC, MG26 J4, vol. 421, "Cabinet conclusions," 30 June 1948.

⁸¹ Canada, Dominion Bureau of Statistics, *Canada Year Book, 1948* (Ottawa: King's Printer, 1948), 946.

controls/decontrols, signaled the coming termination of the price problem.⁸² As held by Abbott since his arrival at the finance ministry, high incomes had allowed living standards to stay stable in spite of price increases. Canadians would continue to grumble, no doubt, but the benefits of the government's reconstruction policies and decontrol program outweighed the burdens and hardships. With the summer elections over, prime minister King quieted his complaints about Abbott and the finance department. The reinstatement of an almost completely free price structure was on the horizon.

The Parliamentary report on prices heralded the desecuritization of the price crisis and inflationary problem as a whole. By accepting the recommendations of the report, the King government was implicitly acknowledging that the inflationary problem could now be safely dealt with at the political level. A centralized, executive branch management of the stabilization program was no longer necessary because the economic and political-economic threat posed by inflation was ebbing. While the report acknowledged that some controls were still needed, it was understood that the remaining stabilization measures were temporary. Cabinet's creation of the Royal Commission on Prices further signaled the de-securitization and re-politicization of the inflationary problem. In allowing this advisory panel to conduct an in-depth study of the inflationary wave, the King Cabinet downgraded the import of inflation as a threat to Canada's economic security. Had the government's intent been otherwise, had Cabinet sought to revisit the dangers posed by inflation, a statement emphasizing Ottawa's and the WPTB's continuing commitment to battle inflation would have been issued, as happened in 1946-1947. That this course was disavowed demonstrates that the King administration was confident that the inflationary threat was passing and that the economic base was increasingly secure.

⁸² Canada, Dominion Bureau of Statistics, *Canada Year Book, 1950* (Ottawa: King's Printer, 1950), 989.

A CCF MP lamenting the policy implications and partisan advantage that the prices committee conferred on the Liberals noted that: "In my opinion. By setting up the prices committee the government was merely trying to relieve itself from the justifiable wrath of the Canadian people. That committee turned out to be a white wash, a poor substitute for the government's once good price policy."⁸³ It was an unmistakable sign that the price issue had fallen back into the realm of politics and partisan debate.

Members of the King government had another reason to be optimistic in the late summer of 1948. In April of that year, the U.S. Congress had passed the ERP, and despite some opposition from American lawmakers, the approved Marshall Plan allowed aid recipients to make purchases throughout the Western hemisphere. Though import restrictions would need to remain in place until Canada's supply of American dollars were properly replenished, Congress' passage of the ERP meant that the Canadian currency crisis was at an end.⁸⁴ As the import restrictions were gradually removed, upward pressures on Canadian prices eased. By no means an entirely altruistic gesture on the United States' part,⁸⁵ the Marshall Plan and the allowance of 'offshore' purchases acted as a veritable *deus ex machina* in Canada's achievement of a stable and robust postwar economic base.

Two months after the ERP was passed by the U.S. Congress, the Canadian House of Commons passed labour legislation that solidified the stability of the economic base. Begun in the fall of 1946, the peacetime federal labour law proposed by the King government had languished in the Parliamentary industrial relations committee for almost year before it was presented to the Commons for a vote in April 1948. Called the

⁸³ House of Commons, *Debates 1948*, 4469.

⁸⁴ Cuff and Granatstein, *American Dollars, Canadian Prosperity*, chapter 4.

⁸⁵ See Leffler, *Preponderance of Power*.

Industrial Relations and Disputes Investigation Act (IRDIA), the law upheld PC 1003's principles of collective bargaining and union security. In keeping with Ottawa's desire to respect the provinces' jurisdiction over industrial relations and the King Cabinet's intent to minimize the government's involvement in economic affairs, the IRDIA was not a national labour code, nor did it call for the federal government to be involved in labour-management negotiations. Instead, the IRDIA served as a template for labour negotiations overseen by the provinces. Owing to its limited scope and power, the IRDIA disappointed union leaders who had fought for a national labour code and a dispute resolution mechanism involving the federal government, labour, and management.⁸⁶ In spite of these perceived weaknesses, Canada's leading national unions recognized that the IRDIA advanced labour's interests. Their rights of collective bargaining and union security were recognized in federal law and would be respected by a majority of the provinces. Hence, when the IRDIA came into effect in September 1948, the new legislation bolstered the cause of industrial peace in Canada.⁸⁷ For the King government, this alone meant that the Act was a success. With the Act in place, labour unrest seemed unlikely to disrupt the entrenchment of a stable economic base and prosperous free market.

After three years of peace and reconstruction, the King government no longer perceived any veritable dangers to Canada's economic base and Canadian liberal-democratic capitalism. 1948 had begun with concerns about steeply climbing prices, public anger, and an unresolved U.S. dollar shortage. As the months passed, however, a solution to the American dollar problem appeared and the overall strength of the

⁸⁶ McInnis, *Confrontation*, 177-181.

⁸⁷ Fudge and Tucker, *Labour Before the Law*, conclusion.

economy and Canada's economic base reduced the price crisis to a political issue rather than a economic security threat. The price crisis faded as rapidly as it appeared. What was more, reconstruction had all but fulfilled its ends. In late June, Cabinet agreed to rescind the scope of the National Emergency Powers Transition Act.⁸⁸ Cabinet hoped that, by March 1949, the Act would only permit controls on rents.⁸⁹ The exceptional condition was at an end, normalcy was returning. With the security of Canada's economic base and organizing ideologies assured, economic and reconstruction policy were being gradually desecuritized and re-politicized. In spite of his nervous reaction to the price crisis, an aging Mackenzie King could plan his 15 November 1948 retirement knowing that Canada's national economic and political security was less vulnerable and better protected than at any time since his 1935 election victory.

5.3) A Peace Won

Prices reached their highest point in October-November 1949.⁹⁰ Cabinet barely reacted to the news.⁹¹ Anger over price increases no longer perturbed Ottawa. Canadians had accepted that the government was unprepared to re-impose controls. Given their relatively high living standards, they could scarcely complain. In December 1948, prices declined for the first time since the end of the war.⁹² Whether due to government policies or market conditions, the outcome was the same; the price crisis was undoubtedly over. The 1947-48 price wave was subsiding and the inflationary threat to the Canadian economic base was gone.

⁸⁸ LAC, MG26 J4, vol. 421, "Cabinet conclusions," September 1948.

⁸⁹ LAC, MG26 J4, vol. 421, "Cabinet conclusions," 29 June 1948.

⁹⁰ *Canada Year Book 1950*, 989.

⁹¹ LAC, MG26 J4, vol. 421, "Cabinet conclusions," October-November 1948.

⁹² *Canada Year Book 1950*, 989.

In his March 1949 budget speech, Abbott outlined a further set of decontrols. Price ceilings were lifted on “flour, bread, butter, sugar, edible molasses, canned fruits and vegetables, and imported apples, celery, lettuce, onions, spinach, and tomatoes.”⁹³ Subsidies for wheat were withdrawn as well. On 26 March, Parliament voted to extend the powers of the WPTB until 31 March 1950. Unlike previous extensions of the emergency powers act, however, from this point forward the WPTB’s authority would only cover goods still controlled as of March 1949. Goods that remained under control were citrus fruits, canned fruit juices, cabbage, carrots, imported grapes and primary forms of iron and steel. All controls on iron and steel were later repealed in February 1950, indicating that heavy industries were finally ready to re-enter a fully free market .⁹⁴

On 8 April 1949, the Royal Commission on Prices released its report on postwar living costs.⁹⁵ The report defended the King government’s postwar stabilization policies and noted that inflationary pressures would have been far worse had Ottawa not adopted exceptional measures to contain inflation. It informed Canadians that increases in their cost-of-living had been caused by the realities of war production, American price behaviours, and the postwar investment boom. Structural factors, not business profiteering, were to blame. What was more, the report was categorical that price controls and other forms of centralized planning should be viewed as temporary initiatives, rather than the foundation of sound economic policies in peacetime. “Price control,” the report argued, “is no substitute for action designed to bring over-all demand into line with over-all supply. It disguises inflation and fails to remove the cause of the trouble.”⁹⁶ With this

⁹³ *ibid.*, 983.

⁹⁴ *ibid.*

⁹⁵ *Ibid.*, 978-81.

⁹⁶ *ibid.*, 979.

admonition, the Royal Commission offered a decisive, non-partisan defence of Canada's organizing ideologies. Yet by the fact of its own existence, the Commission also signaled that the protection of Canada's organizing ideologies was de-securitized. True matters of national security are not handled or investigated by Royal Commissions; in Canada they are the concern of Cabinet and high-ranking officials.

An equal de-securitization of the Canadian economic base was proclaimed by the department of trade and commerce (DTC) in February 1949. In a lengthy study titled *Investment and Income*, DTC officials noted that "After three years of investment boom the Canadian economy is still in a comparatively strong position." Unlike the years following the First World War, Canada's post-Second World War economic base had stabilized and developed a strong resistance to an inflation-induced recession. "Supply of most factors," the study noted, "has been catching up with demand," and there were no signs of the "speculative excesses" that characterized the 1920s and pushed the capitalist world into the Great Depression.⁹⁷ Canada's economic base was secure.

In evaluating the difficulties and threats to the economic base between 1945-1948, *Investment and Income* echoed Donald Gordon's early warning about conflicting objectives. The chief economic problem of postwar reconstruction period had been "Too many trying to do too much in too short a time." Thanks to the government's reconversion and stabilization policies, though, the study concluded that "high levels of employment and income and standard of living prevailed in the postwar period, and that,

⁹⁷ Canada, Department of Trade and Commerce, *Investment and Inflation, with Special Reference to the Immediate Postwar Period, Canada 1945-1948* (Ottawa, 1949), 21-22.

in spite of rapid price increases, harmful price excesses and speculation were on the whole avoided.”⁹⁸

While his accelerated decontrol program had been controversial, Douglas Abbott could find solace in this assessment of the federal government’s reconstruction performance. 1947 and 1948 were difficult years for the stabilization program, but Abbott was in a position to claim that his policies had secured and accelerated Canada’s return to a free market and price system. C.D. Howe, meanwhile, was more sanguine. His reconversion policies had propelled the postwar transition, insulated the economic base against a downturn, and been principally responsible for the restoration of Canadian liberal-democratic capitalism. The peace was won, and yet in an era of prosperity, the policies that had made victory possible were judged to be self-evident.

⁹⁸ *ibid.*

Conclusion

Canadian Reconstruction and National Security

National security involves the protection of the state's essential components against military threats, political threats, societal threats, ecological threats, military-economic threats, political-economic threats, and economic threats. Governments address these threats with two types of measures: vulnerability reduction (strengthening the state's resistance to threats) and threat confrontation (eliminating threats). To arrive at this conception of national security, the dissertation adapted and built on the theory of national security developed by Barry Buzan in *People, States, and Fear*.

Buzan's conception of national security recognized that state security involves the protection of the state against of the military, political, societal, ecological, military-economic, and political-economic threats, but he denied that states faced purely economic threats. For Buzan, the fact that states accept the inherent risks of the free market means that their economic troubles cannot count as matters of national security. Instead, he held that the economic concerns of states are routine matters that fall below the threshold of true security problems. To counter Buzan's claim, the dissertation drew on the work of several scholars who argued that severe economic difficulties count as national security issues for states. Writing in the aftermath of a series of economic crises that gripped the United States in the early 1970s, Klaus Knorr showed that states can perceive economic dangers as a threat to their national security, particularly when their economies are vulnerable to resource or supply restrictions. Knorr's contention was reinforced by the historical analysis of Robert Gilpin, which showed that states have often treated their economies as critical to their security. Offering a more detailed analysis, Charles A.

Murdock observed that, if economic conditions are sufficiently severe, states face threats to their national incomes, economic stability, and economic independence. He also demonstrated that threats to state economies could be systemic and indirect in nature, an observation that countered the prevailing academic wisdom that threats to national security must be direct and intentional. Murdock's findings provided key insights into how states are threatened economically. The example reinforced Murdock's work was the petroleum crisis of the 1970s. Though an economic concern, the oil embargo was sufficiently severe to undermine the American economy and prompt President Richard Nixon to state that "security and economics are inevitably linked."¹

Yet Murdock's notion of national economic security required further development to effectively adapt and complement Buzan's original conception. Accepting Buzan's idea that national security involves the protection of a state's basic elements, the dissertation explored which component of the state is threatened economically. It was argued that, alongside a physical base, ideas, and institutions, states are made up of an economic base, and that economic threats are those that target this economic base. Drawing on Murdock, it was shown that the economic base includes national income and wealth. Drawing the classical realism of Hans Morgenthau, it was also concluded that the economic base includes a state's productivity. And drawing on the recent literature on workforces and labour mobility, it was established that the economic base includes a state's human capital.

In addition to describing the economic base of the state and how states are threatened economically, the dissertation dispelled the notion that states are only

¹ Quoted in Charles A. Murdock, "Economic Factors as Objects of Security: Economics, Security and Vulnerability," in Klaus Knorr and Frank N. Trager, eds. *Economic Issues and National Security* (Lawrence: Regents Press of Kansas, 1977), 68.

threatened by external, agent-driven threats. Relying on the work of Mohammed Ayood, the dissertation showed that states face internal threats to their security. Relying on several thinkers from the Western philosopher tradition, it was demonstrated that states can be threatened by contingent threats. And growing out of the findings of researchers in the field of peace and conflict studies, it was established that states encounter structural threats. When combined with the dissertation's discussion of economic threats and the economic base, this led to the conclusion that states can face internal, external, human, structural and contingent economic threats.

To identify when states encounter economic threats to their economic bases, the dissertation relied on Ole Waever's theory of securitization and desecuritization. According to Waever, securitization occurs when elites perform linguistic acts that name threats to national security. Securitization also involves the extension of exceptional powers to elites to confront these threats. Desecuritization, on the other hand, occurs when threats are no longer treated as dangers to national security, exceptional powers are relinquished, and debates about how to cope with a particular problem are returned to the political realm. If states face purely economic threats, the dissertation argued, then the protection of the economic base will be securitized by elites through the act of naming economic threats and elites will requisition extra-ordinary powers to address these treats.

In sum, the theoretical framework developed in this dissertation put forth the argument that: 1) National security involves the protection of the idea (nationality and organizing ideologies) of the state, the institutions of the state, the sovereignty of the state, the physical base of the state, and the economic base of the state; 2) Threats to these components of the state are classified into seven sectors: military threats, political threats,

societal threats, ecological threats, military-economic threats, political-economic threats, and economic threats; 3) These threats can be either internal or external, and human, structural, or contingent in origin; 4) Elites identify threats to national security by performing linguistic acts of securitization, which involves naming a threat and commandeering exceptional powers to address this threat; 5) Governments address threats in two ways: vulnerability reduction (strengthening the state's resistance to threats) and threat confrontation (eliminating threats). This framework kept the fundamental tenets of Buzan's conception, while expanding his understanding of national security to include the recognition of purely economic threats, the economic base as a basic component of the state, and the internal, structural, and contingent nature of certain threats to state security.

This theoretical framework was applied to the case of Canada between 1943-1948. The case demonstrated that Canadian decisionmakers perceived and securitized economic and political-economic threats to the Canadian state during this period. The case was chosen for its hardness. Most studies of this period have argued that Canada experienced unchecked prosperity. No other analysis argued that Canadian decisionmakers perceived any serious economic threats to Canada at this time. As a result, the case is atypical, the predicted findings were not self-evident, and nor were they widely recognized in the existing literature. A case of this sort tested the framework's insights, thoroughness, and general applicability. It also offered a different perspective on Canadian economic policy between 1943-1948, which adds to the existing historical literature.

Canadian decisionmakers worried about Canada's economic and political future when victory against the Axis powers appeared on the horizon in 1943. After four years of war, Canadian production and income levels had reached unprecedented heights. Living standards had risen for the first time since 1929 and unemployment was virtually non-existent. Canada was allied with the world's financial superpower, the United States. These facts appeared to herald a fortuitous economic future for Canada. Yet, in spite of these successes, decisionmakers within the government of prime minister William Lyon Mackenzie King saw significant economic troubles ahead. In the aftermath of the First World War, Canada had experienced an inflation-induced recession following a brief period of prosperity. This recession had eroded Canada's national wealth and income, as well as harmed production levels, especially in the agricultural sector. From the position of apparent economic strength it had held during the war, Canada tumbled into a severe economic downturn. Inflationary pressures had also stirred violent labour unrest and set the world economy on a unstable trajectory that culminated in the Great Depression of the 1930s. The Great Depression had inflicted massive damage on the Canadian economic base. National wealth and income plummeted, unemployment skyrocketed, and productivity slumped. As with the rest of the industrialized world, even more than the rest of the world, in fact, the Great Depression had gutted Canada's economic capacities, instilling a lasting fear of its recurrence. Because inflationary pressures threatened to again take hold of the Canadian economy when the Second World War ended, decisionmakers worried that Canada might be doomed to relive the economic tragedies of 1919-1921 and 1930s. Were this to happen, Canada's economic foundations would be severely shaken, undermined, and damaged.

Faced with this inflationary threat, decisionmakers in Ottawa securitized the protection of the postwar economic base. Plans were made to keep wartime stabilization measures in peacetime and wartime emergency powers would be extended after the war to ensure that these measures were shielded from legal challenges. Canadians were repeatedly warned of the dangers inflation and of the need to accept controls, rationing, and other hardships to block its harmful effects. The securitizing discourse employed by the King government was categorical: inflation was a menace that had to be confronted, lest it do irreparable damage to the Canadian economy.

Equally fearful of a postwar economic downturn were members of the Canadian public. War, and the centrally planned wartime economy in particular, had freed them from mass unemployment, a pervasive sense of personal economic insecurity, and a capitalist system that appeared incapable of improving their lot. While they became more optimistic about their economic prospects as the war near its end, the possibility of being thrown back into their prewar condition led Canadians to question the desirability of a return to an apparently merciless free market. The war had demonstrated the value of a planned economy, which prompted a number of them to think that the country should embrace a socialist or statist political-economic ordering in peacetime. To decisionmakers in the King government, however, this public sympathy for socialist/statist alternatives was a threat to Canada's traditional ideologies of liberal-democratic capitalism. Whether through the decisive election of a socialist government or the retention and gradual extension of statist controls in peacetime, Canadians' search for personal economic security would come at the expense of Canada's liberal and capitalist

ordering. The public's trepidations, decisionmakers surmised, could not be permitted to weaken the ideological underpinnings of the Canadian state.

In their private letters, diaries, and public pronouncements, Canadian decisionmakers named the ideological threat posed by Canadians' openness towards socialism. They also securitized the protection of Canada's organizing ideologies against this threat. But Canadian decisionmakers recognized that there were no policies that could directly confront the appeal of socialism. Instead, the vulnerability of Canada's organizing ideologies would have to be reduced by showing Canadians that a revived free market could be prosperous, stable, and most importantly, a source of personal economic stability. The aim, then, would be to show Canadians that capitalism 'worked'. To fulfill this objective, the postwar economy would need to be guarded against the same inflationary danger that threatened the economic base. Specifically, to show Canadians that capitalism worked, a postwar recession or depression would need to be avoided, and inflation was the force that threatened to spark a recession or depression. A defence of Canada's organizing ideologies thus depended on a protection of the Canadian economic base against inflation.

Inflation and a severe postwar economic downturn threatened to greatly damage Canada's economic base and obstruct the reestablishment of a liberal-democratic capitalist regime. Were either of these fears to be realized, Canada would be winning the war but losing the peace. To prevent this outcome, the King government crafted postwar reconstruction policies that would defend the economic base and Canada's organizing ideologies by guarding against the downward pull of an inflation-induced recession. In line with the framework developed in this dissertation, these policies operated under the

National Emergency Powers Transition Act, a law that granted the federal government exceptional powers under the assumption that the postwar transition was an emergency condition. Reconstruction policies, the King government believed, were required to win the peace.

Three sets of reconstruction policies were developed by the officials in Ottawa leading up to the end of the Second World War. Reconversion, the heart of reconstruction, aimed to return Canadian industry from wartime production to peacetime production. Those spearheading reconversion believed that rapid, but orderly, reconversion was necessary to meet consumers' demands for civilian goods, keep unemployment low, and set the economic base on a prosperous and stable footing once hostilities ceased. In keeping with the defence of Canada's organizing ideologies, reconversion served to extricate the government from the economy, restoring to firms and individuals their traditional economic liberties.

Reform policies, on the other hand, sought to preserve a degree of government intervention in the economy. For reformists, who were influenced by the theories of the renowned economist John Maynard Keynes, the market system was inherently unstable. Capitalism, reformers held, was prone to crippling recessions and depressions. To reformers, if capitalism was to be made to work, it would need to be corrected by government counter-cyclical budgeting policies and aggregate demand-boosting initiatives. While such measures would inevitably dilute the freedom of the market, they would make Canadian capitalism, and the Canadian economic base, more resilient to downturns such as those that occurred after the First World War and the Great Depression. Reformers thus aimed to save capitalism from itself.

Stabilization, the third set of reconstruction policies, aimed to contain postwar inflation. Perceived as a dangerous structural threat to the economic base, the need to contain postwar inflation was paramount. Yet the architects of Canada's stabilization program recognized that both the reconversion process and the reformist demand-boosting measures would increase inflationary pressures once hostilities ended. Similarly, the goal of returning Canada to a free market meant that price and wage controls, the keystone of the stabilization program, would have to be gradually withdrawn. As a result, the managers of the stabilization program were tasked with simultaneously holding back inflation and dismantling the very measures that contained inflationary pressures in the economy. But the managers of the stabilization program further realized that the best means of combating inflation was to eliminate shortages and increase production. Alongside the goal of extricating the government from the economy, this reinforced the logic of gradual decontrol, since a freeing of the market was thought to be the path to fewer shortages and greater production levels. Hence, though the short-term objectives of reconversion and stabilization would occasionally clash, their long-term aims were in unison.

At odds were the postwar objectives of stabilization and reform. Because reformist policies sought to increase inflation-inducing demand, the managers of the stabilization were opposed to most reform initiatives. As the war drew to a close, therefore, reform policies were opposed by reconversionists and the managers of the stabilization program. This rift ensured that a choice between the reformist and reconversionist/stabilization vision of reconstruction would have to be made before hostilities ended.

Reformers dominated the reconstruction debate in 1943 and early 1944. While their plans for large-scale peacetime public expenditures were rejected by Cabinet, reformers convinced the King government of the utility of generous, aggregate demand increasing family allowances and veterans' benefits. Given the public's wariness of the free market, moreover, the King Liberals embraced a reformist discourse and electoral platform in 1944. This appeared to solidify the reformists' hold on reconstruction policy. In late 1944, however, the King government's attitude changed, when the reconversionist minister of munitions and supply, C.D. Howe, was made minister of the newly created department of reconstruction. Under Howe's leadership, reformist ideas were sidelined and reconversion became the central focus of reconstruction. Because Howe and the chairman of the Wartime Prices and Trade Board (WPTB), Donald Gordon, agreed about the challenges that the Canadian economy would encounter after the war, stabilization also assumed a privileged place in postwar economic planning. When the Second World War ended in the summer of 1945, reconstruction policy was guided by the aims of reconversion and stabilization.

Reconstruction progressed steadily between August 1945 and the winter of 1946. As Howe had predicted since 1944, reconverting industries were absorbing war workers and demobilized veterans. There would be no postwar unemployment crisis. Severe shortages and underlying inflationary pressures persisted, however. But because the WPTB kept vital controls in place, inflation was held in check. In the spring of 1946 circumstances changed. A series of labour disputes gripped the country, halting production in several key sectors, including coal and steel. The strikes exacerbated shortages, which increased inflationary pressures, and they forced the King government

to abandon wage controls. To counteract growing inflationary pressures, finance minister J.L. Ilsley put the Canadian dollar at par with the American dollar, a decision which would have important repercussions. The WPTB, meanwhile, continued to stress the importance of holding the line on prices, though Gordon knew that without similar controls on wages, the stabilization program was heading towards disintegration. Only a valiant commitment to stable prices, Gordon realized, could shield Canada from ever stronger inflationary pressures. Hence, when 1946 ended, the positive attitude that had prevailed in Ottawa earlier in the year was dampened. Despite the considerable progress of reconversion, the threat to Canada's economic base remained, and the threat to Canadian liberal-democratic capitalism along with it.

In January 1947 a new finance minister, Douglas Abbott, shifted the King government's approach to stabilization and decontrol. Believing that the only permanent answer to the inflationary threat was fewer shortages and higher production levels, Abbott decided that the decontrol process would be accelerated. This, he held, would help finalize reconversion, reduce shortages, and increase production levels.

As accelerated decontrol moved forward, the risks of this policy were revealed. By the late summer of 1947 inflation was climbing at an alarming rate and the public was expressing mounting concerns about increases in their cost-of-living. To stem the inflationary tide and soothe public concerns, controls were reintroduced on several key goods in the late fall of 1947 and early spring of 1948. But heavy inflation and public dismay were not the only troubles the King government faced. As worrisome was a severe shortfall of United States dollars. In part a result of the government's decision to impose parity between the Canadian and American dollars in the summer of 1946, this

shortfall of U.S. currency threatened to derail the Canadian economy. To counter the effects of the American dollar shortfall, the King government imposed import restrictions on American goods in November 1947, hampering Canadian economic growth and further warming an already heated inflationary situation. When 1947 came to a close, a sense of unease pervaded the government. Though reconversion had succeeded beyond most expectations, the fear of a inflation-induced downturn persisted and was amplified by the surge in prices.

In 1948, however, these fears were shown to have been exaggerated. Favorable developments in the United States and the overall strength of the reconverted economic base allowed Canada to replenish its American dollars and avoid an inflation-invoked recession. Though Canadians still felt uneasy about their rapidly rising cost-of-living and the appeal of socialist/statist solution to the price crisis continued to hold some sway, wartime standards of living had been maintained or improved, and fears of mass unemployment had long vanished. Both the economic base and Canada's organizing ideologies were secure. Accordingly, reconstruction was downgraded from a national security problem to a political question. Though some controls and emergency powers were maintained until 1950, by the summer of 1948 postwar economic policy was desecuritized and re-politicized.

In the end, the success of Canadian national economic security policy between 1943-1948 rested with Howe's reconversion policies and the National Emergency Powers Transition Act. Reconversion established a stable and prosperous postwar economy that was able to withstand the inflationary wave of 1947-1948, and the Emergency Powers Act provided the federal executive with the authority it required to direct the postwar

transition. In this sense, the securitization of reconstruction was sensible and warranted. While critical to the success of reconstruction, the stabilization program was unevenly managed. Undermined by Cabinet's decision to remove wage controls and Abbott's cavalier approach to decontrol, the government's anti-inflation measures failed to contain worrisome levels of inflation, though inflationary pressures would have been far worse and more dangerous without these measures. The stabilization program was essential to the protection of the economic base and Canada's organizing ideologies, but its uneven direction placed unnecessary pressures on the progress of reconversion.

The case of Canada between 1943-1948 demonstrates the importance of acknowledging that states face economic threats. While Buzan's conception would have identified the political-economic threat Canada encountered during this period, only the modified framework presented here discerned that there was a threat to the economic base that underlay the danger to Canada's organizing ideologies. As proposed by the theoretical framework set forth in this dissertation, this shows the importance of recognizing and analyzing the economic threats that states face. Overlooking these types of threats clouds a full understanding of national security and of the relationship between state security and economics.

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