

# ***Exports and External Adjustment during the Slump: the British Market, Australia and Canada during the 1930s***

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## **Introduction<sup>1</sup>**

The introduction of protection and imperial preference in 1931-2 contributed to a major expansion of British imports from Commonwealth countries. By 1937 the value of British imports from imperial sources was 70 per cent greater than in 1931 and represented a major advance in the proportion of total imports. In case studies of Australia and Canada two major aspects of this expansion are examined in this paper. One is the role played by the British market in the process of balance of payment adjustment for debtor countries. Both Australia and Canada avoided external default on their public debt during the 1930s, an extraordinary achievement in the face of the huge debt-servicing difficulties they faced during the slump. The contraction of international purchasing power, rising protectionism, the dramatic collapse of primary commodity prices and a sharp increase in real interest rates caused major current-account problems for both countries. These were enormously compounded, especially in Australia, by the virtual cessation of capital imports. Inevitably the burden of adjustment fell principally on the merchandise account. Increased export earnings from sales to the UK formed one side of the external adjustment process.

<sup>1</sup> We are grateful to Derek Aldcroft and Peter Scott for reading earlier drafts of this paper as well as for the helpful comments also made by participants at the Canadian Economic History Conference, Niagara-on-the-Lake, May 1997. None, of course, are implicated in any remaining shortcomings of the paper.

Import contraction was another, and thus there was little reciprocal benefit for British exporters; this dismal export record to many of the Dominions was the counterpart to continued debt servicing, and therefore consistent with the Cain and Hopkins thesis of primacy given in British economic policy to the financial interests of the 'gentlemanly capitalists'. By keeping an open market for distress goods from (selected) debtor countries, international financial instability was minimised, and to this extent Britain continued to fulfil at least some of the functions of a hegemonic power<sup>2</sup>.

What mattered in securing financial adjustment was net earnings. In this context the growth in the value of imports into Britain was impressive, but it obscured a far greater expansion of volume. This has received little previous attention, but the calculations presented here reveal the scale of growth involved. In Australia's case the ability of Britain to continue absorbing much of the increased production is ironic in view of the growing pessimism in Australia about the long-term future of the British market and the bitterness that crept into bilateral relations as a result of London's attempts to persuade it to restrict sales. The growth of imports from Canada was all the more unexpected because wheat, which normally dominated British purchases, did badly. It is argued that, while greater current account earnings were critical for balance of payments adjustment in both countries, the increased volume of imports contributed substantially to economic recovery in Australia and played some part in mitigating the Canadian slump.

### **International exposure and the slump**

Both Australia and Canada had a high degree of exposure to the

<sup>2</sup> P.J. Cain and A.G. Hopkins, *British Imperialism: Crisis and Deconstruction 1914-1990*, (London, 1993).

<sup>3</sup> C.P. Kindleberger, *The World in Depression, 1929-1939*, (London 1973). This analysis was foreshadowed by J.H. Williams, the Harvard economist and a US delegate at the preparatory meetings for the World Economic Conference: Public Record Office, London (PRO) CAB 58/183, Report on the Work of the Preparatory Committee for the World Economic Conference, 31 October-9 November 1932, F. Leith-Ross and F. Phillips, 10 November 1932.

international economy. Perhaps 80 per cent of the output of Canadian farms, forests and mines was exported<sup>4</sup>. By the mid-1920s approximately 25 per cent of Canadian Gross National Product (GNP) was derived from exports, much more than before 1914. Australian export dependence was lower with overseas sales running at about 18 per cent of Gross Domestic Product (GDP) on the eve of the slump. Although there were clear domestic weaknesses in Australian economic performance in the late 1920s, it was the shocks emanating from the international economy that made the depression so deep<sup>5</sup>. Since the cessation of international lending virtually coincided with the collapse of export prices, immense balance of payments pressures resulted. The current account was already weak, the deficit between 1925/26 and 1929/30 averaging £52 million per year, about seven per cent of GDP<sup>6</sup>. Most of this had been covered by capital imports. But by the late 1920s international money markets were exhibiting growing unease about Australian indebtedness: continued heavy borrowing by Commonwealth (Federal) and State governments had raised doubts in the City of London, the main source of the funds, about the wisdom of continued lending<sup>7</sup>. With the deterioration of international money market conditions in 1929 Australia therefore experienced funding difficulties and a sharp rise in short-term debt. This in itself would have demanded remedial action to rectify the deficit and to protect currency reserves. But when wheat and wool prices plunged in 1929/30 problems were intensified. Greasley and Oxley argue that it was

<sup>4</sup> K. Norrie and D. Owsam, *A History of the Canadian Economy*, (Toronto, 1991), p.480.

<sup>5</sup> C.B.Schedvin, *Australia and the Great Depression: a study of economic development and policy in the 1920s and 1930s*, (Sydney, 1970), although stressing external forces, also gives some weight to domestic factors in the depression. However, E.A.Boehm, 'Australia's Economic Depression of the 1930s', *Economic Record*, 49 (1973), T.J.Valentine, 'The Causes of the Depression in Australia', *Explorations in Economic History*, 24 (1987) and Mahindra Siriwardana, 'The Causes of the Depression in Australia in the 1930s: A General Equilibrium Evaluation', *Explorations in Economic History*, 32 (1995), largely dismiss the role of internal causes.

<sup>6</sup> B.Dyster and D.Meredith, *Australia in the international economy in the twentieth century*, (Cambridge, 1990), p.119.

<sup>7</sup> B.Attard, 'Australian Financial Diplomacy, 1914-39', Paper given at conference 'Australian Defence and Diplomacy', Sir Robert Menzies Centre for Australian Studies, University of London, January 1995, and Schedvin, *Australia and the Great Depression*, ch.V.

the deteriorating terms of trade that were decisive in cutting incomes; Valentine also emphasises the fall in export prices as a more important cause of the depression than the cessation of overseas borrowing<sup>8</sup>. Yet it was the conjunction of the two factors that created such immense problems for economic management and led to a preoccupation with external solvency, a major element of which was the cost of servicing overseas debt. This had grown even faster than the debt itself and by the end of the 'twenties had absorbed approximately one-quarter of export earnings; as export prices dropped, the servicing burden rose so that by 1930/31 it accounted for 48 per cent of reduced earnings<sup>9</sup>.

While Canada's involvement in the international economy bore marked similarities to that of Australia, its balance of payments position was less precarious. Although Canada borrowed much less than in the pre-war boom, the massive investment of the late 1920s had involved borrowing and direct investment from abroad, mostly from the USA. Yet whereas Australia was finding capital markets wary of further loans as early as 1928, Canada was able to continue raising funds in Wall Street during 1929 and 1930<sup>10</sup>. Moreover, in response to new Canadian tariffs and exchange difficulties, US companies rushed to set up branch plants<sup>11</sup>.

By the eve of the depression Canada was running current account deficits with the USA and UK. These were paid for by current account surpluses with other countries and capital inflows from the USA<sup>12</sup>. After 1928 export earnings fell sharply, hit by problems in world wheat markets and by the collapse of sales to the US. Although the ability to

<sup>8</sup> David Greasley and Les Oxley, 'A tale of two dominions: comparing the macroeconomic records of Australia and Canada since 1870', *Economic History Review*, LI (1998), p.309; Valentine, 'Causes of the Depression'.

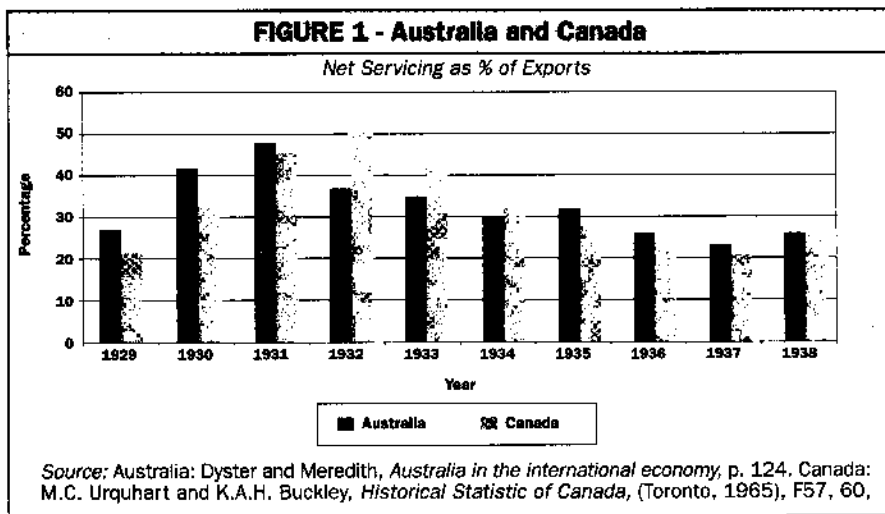
<sup>9</sup> Dyster and Meredith, *Australia in the international economy*, p.124. I.W.McLean, 'The Australian Balance of Payments on Current Account 1901 to 1964-65', *Australian Economic Papers*, 7 (1968). These figures are for net costs of servicing as percentage of visible exports and do not include amortisation.

<sup>10</sup> Eichengreen attributes this continued access to the New York capital market as the central factor in the stability of the Canadian dollar. Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression 1919-1939*, (New York and Oxford, 1995), p.241.

<sup>11</sup> Mira Wilkins, *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970*, (Cambridge, Mass. 1974), p.172.

continue borrowing in 1930 provided temporary relief not open to Australia, the external account was fast deteriorating. Payment of interest and dividends increased from \$240 million in 1926 to \$348 million at its peak in 1930. By then the current account deficit was nearly six per cent of GDP. But while exports fell precipitously, the cost of servicing proved more intractable. In 1931 merchandise exports earned only \$601 million, less than half their 1926-8 average, and servicing foreign debt swallowed up 47 per cent of this (see Figure 1).

The heavy burden of servicing was one reason it was so difficult to reduce invisible account deficits. Hence the main burden of adjustment fell on the merchandise trade account. In both countries the collapse of purchasing power, and especially in Canada the fall in investment levels, contributed to a sharp reduction in imports<sup>13</sup>. This was by no



<sup>12</sup> The classic study is by John A. Stovel, *Canada in the World Economy*, (Cambridge, Mass. 1959). He warns of the huge and often volatile sums involved on the capital account in transactions in existing securities. The unusual detail of Canadian statistics by contemporary standards allows a clearer appreciation of the major bilateral accounts, both current and capital.

<sup>13</sup> The decline in gross domestic investment accounted for 47 per cent of the fall in Canadian gross national expenditure between 1929 and 1933; investment appears to have had a high import content, and in Safarian's view the incomplete recovery of investment in the 1930s was a major factor in the failure of imports to revive greatly. A.E. Safarian, *The Canadian Economy in the Great Depression*, (Toronto, 1970), pp. 101-3 and 167.

means sufficient to close the external deficit. In Australia, Scullin's Labour government, anxious also to boost manufacturing employment, resorted to a major hike in tariffs. Customs duties were raised, new tariffs on luxuries introduced, supplementary taxes or primage duties imposed, and, for a short time, many types of import were prohibited. Australia's British Preferential Tariff, the best indicator of the level of protection, nearly doubled between 1928/9 and 1931/2<sup>14</sup>. Moreover, the depreciation of the Australian pound against sterling, eventually by 25 per cent, provided an additional element of protection. Together, the combined forces of lower economic activity, currency depreciation and increased protection caused imports to fall from £143 million in 1928/9 to only £44 million three years later.

In Ottawa the Liberal government's 1930 budget incorporated a wide range of import duty increases together with retaliatory tariffs against the notorious Hawley-Smoot Bill<sup>15</sup>. United States produce faced countervailing duties, while imperial preferences were extended. In the election campaign of that year R.B. Bennett promised a future in which Canadians would no longer be 'hewers of wood and drawers of water', and also pledged to use tariffs 'to blast a way into markets that have been closed'<sup>16</sup>. Once in office, intending to exclude goods that could be made in Canada, he raised duties still further. The combination of severe depression, sharply raised tariffs and a battery of administrative devices aimed at restricting trade led to a fall in commodity imports from \$1,272 million in 1929 to \$368 million by 1933.

## Trade diplomacy

Cutting imports was potentially a quick and effective method of reducing balance of payments deficits. Export expansion in the

<sup>14</sup> A.T. Carmody, 'The level of the Australian tariff: a study in method', *Yorkshire Bulletin of Economic and Social Research*, 4 (1952). The weighted British Preferential Tariff (1919/20 =100) rose from 125 to 238.

<sup>15</sup> R.M. Conlon, *Distance and Duties: Determinants of Manufacturing in Australia and Canada*, (Ottawa, 1985), p.24.

<sup>16</sup> Quoted by J.H. Thompson and A. Seager, *Canada 1922-1939: Decades of Discord*, (Toronto, 1985), p.202.

international economic conditions of the 1930s was an altogether tougher task. Bennett's promise of blasting a way into world markets appeared empty. How could countries on the periphery, determined to protect their manufacturing industries, induce trading partners to open up their own depression-hit markets? There was no immediate answer. The depreciation of the Australian pound, although it raised the cost of servicing debt (most of which was denominated in sterling), achieved potential export advantages. Canada, caught between two major trading partners and nervous of raising the domestic currency cost of paying interest on US dollar-denominated debts, was reluctant to depreciate far. Since by 1932 most of Canada's major competitors had devalued, its international competitiveness had been eroded<sup>17</sup>.

Much of the relief for exports came eventually from the British market. By world standards British incomes were resilient, and while most countries slammed down the protective shutters, Britain retained free trade until late in 1931. For these reasons the international dominance of the British market for a number of key products became even more pronounced: by 1932 the UK accounted for four-fifths or more of world imports of butter, pigmeat and beef, and about 95 per cent of mutton and lamb<sup>18</sup>. A similar, though less pronounced trend towards a growing UK proportion of world imports was also evident for wheat and wool. Australia experienced a sharp rise in the proportion of its overseas sales to the UK between 1929 and 1931. For Canada, because of the slump in wheat sales, this was not apparent until 1932. Yet with the British market open to all, both countries faced intense competition in the UK market from other Commonwealth countries, and from Scandinavia (butter and forest products), Argentina (wheat, wool and meat) and the Soviet Union (wheat and timber).

The extension of protection and imperial preference by Britain in the winter of 1931-2, presented both Australia and Canada with opportunities for gaining privileged entry for their exports to the

<sup>17</sup> The Nordic countries, Australia and Argentina were among the most direct competitors that had devalued; the USA, of course, had not.

<sup>18</sup> Tim Rooth, *British Protectionism and the International Economy: Overseas Commercial Policy in the 1930s*, (Cambridge, 1993), pp.78-80.

world's most valuable import market. Once British protection and imperial preference was in place, the Dominions had good reason to go to Ottawa, where the Imperial Economic Conference was scheduled for July and August 1932. Here they energetically sought to persuade the British government to widen the range of restrictions against foreign products, and to make existing ones tougher<sup>19</sup>.

Nonetheless the scope for major advances through trade diversion appeared much more restricted than had perhaps been first thought, and the bargaining objectives are superficially puzzling. The Australians appeared uninterested in obtaining concessions for two of their most important exports, wool and wheat, which usually accounted for half or more of export sales<sup>20</sup>. The Empire had production surpluses of both commodities: the widely-held belief was that preferences would merely divert Commonwealth supplies to the UK, displacing foreign supplies which would in turn replace Commonwealth products in other international markets<sup>21</sup>. World production, consumption and prices would remain unchanged. Canada, however, sought and obtained preferential treatment for wheat; few apparently expected anything other than some political kudos for the Bennett government in the prairie provinces<sup>22</sup>. As if to

<sup>19</sup> The most comprehensive study remains that of Ian M. Drummond, *Imperial Economic Policy 1917-1939: Studies in Expansion and Protection*, (London, 1974), especially chs. 5-9.

<sup>20</sup> Although a lower proportion of sales to the UK: in the four years ending in June 1932, wool accounted for 29 per cent and wheat and flour for 14 per cent of Australian exports (excluding specie) to the UK.

<sup>21</sup> For a contrary view arguing that Canadian wheat stood to gain both from European tariffs and British preferences, see D.A. MacGibbon, *The Canadian Grain Trade 1931-51*, (Toronto, 1952), pp.21-3.

<sup>22</sup> 46th and 47th meetings of the UK delegation at Ottawa, 11 and 12 Aug. 1932, Public Record Office, London (PRO) CAB 32/102. A.F. Cooper, *British Agricultural Policy 1912-36. A study in Conservative politics*, (Manchester, 1989), pp.148-9, reports that briefs had been submitted to the Canadian government by Winnipeg Grain Exchange, the Wheat Pool and the United Grain Growers Ltd., the constant theme of which had been that having looked at the possibilities of the quota plan and the preferential system, neither scheme was thought helpful and that the best prospects lay in the maintenance of as many free ports in Europe as possible. These views are also recorded in the National Archives of Canada (NAC) RG 25, vol 1591, F159. They were not shared by most of the grain farmers, however: NAC, Bennett Papers (M1178), 'Press Comments on the Conference'. All Commonwealth countries received the same benefit.

underline the uselessness of the duty, Britain would be able to withdraw it if Empire wheat prices rose above the world level.

Much Canadian energy was directed towards blocking Soviet sales of wheat and timber, which, after the abandonment of the New Economic Policy and the adoption of the first Five Year plan, had begun to re-appear in western markets just as prices were collapsing. In fact, Canadian fears about long-term Soviet competition were exaggerated, and, as Ian Drummond has emphasised, the government's advisers were under a misapprehension about Soviet pricing methods<sup>23</sup>.

The UK refused to increase the timber duties on foreign (i.e. non-Commonwealth) shipments introduced in March, but the Canadians were prepared to draw comfort from London's acceptance of an anti-dumping clause: the British would not go so far as a complete embargo on Soviet products - such a move would have endangered a useful export market as well as some sizeable credits - but did agree to take action if Soviet supplies destroyed the value of the British market for the Dominions. A small duty was placed on imports of foreign copper. Bennett was unable to secure a duty on bacon, but more usefully as it transpired, was able to squeeze out of the British a guarantee for two and a half million hundredweights if quotas were introduced, (about fifty times Canada's 1931 shipments). Also of interest to Canada, UK duties on foreign cheese and apples were raised.

Regarding concessions on wool and wheat as useless, most of Australia's efforts were concentrated on obtaining preferential treatment for its meat exports, although these accounted for only about five per cent of total exports. Again the UK delegates refused duties, but eventually, after some fraught negotiations, agreed to place import quotas on foreign (mainly Argentine) beef and sheepmeat. The importance placed by Australians on close settlement products such as butter and various fruits was rewarded by additional duties and therefore wider preferential margins.

<sup>23</sup> I.M. Drummond, 'Empire Trade and Russian Trade: Economic Diplomacy in the Nineteen-Thirties', *Canadian Journal of Economics*, V (1972), pp.35-47.

## Australian exports

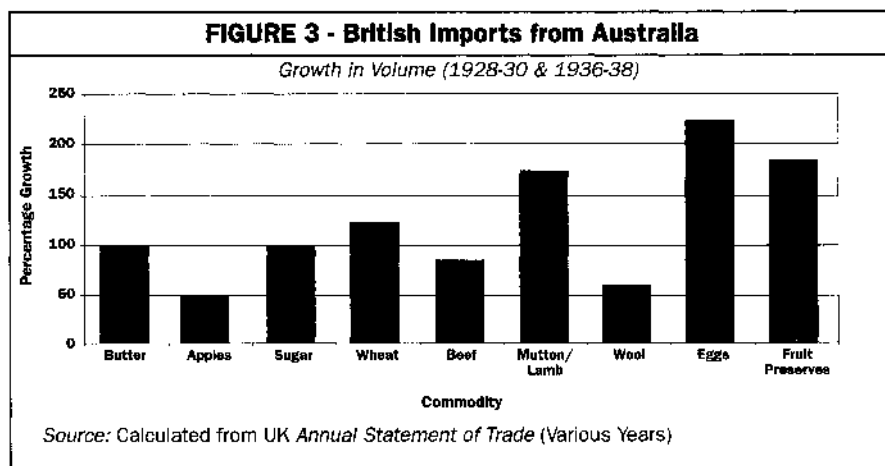
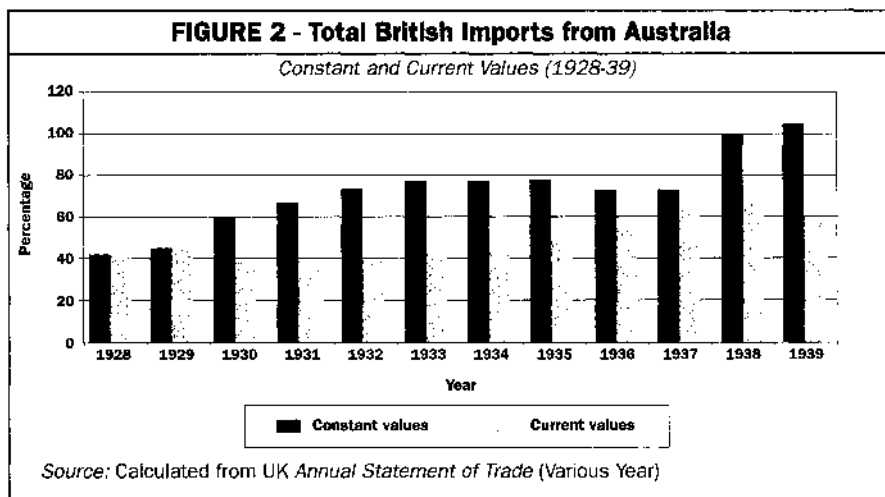
The extent of the Australian export achievement in the 1930s is at variance with the pessimism so frequently expressed about the future of the British market. Australian resentment of Britain was stoked by London's attempts between 1933 and 1936 to raise meat and dairy prices by restricting supplies, a policy interpreted by many in Australia as threatening their birthright to sell as much as they wanted to the UK. Australia's response to British proposals was furious, even the government advancing the nonsensical argument that Argentina's position in its agreement with Britain was 'incomparably superior' to that of Australia<sup>24</sup>. Britain was accused of favouring Argentina because the structure of investments, mainly in variable return trading operations, contrasted with those of the UK in Australia: 'Britain has an interest in making investments in Argentina profitable, while it is completely indifferent to the fate of companies operating in Australia because the bulk of British capital is invested, not in private ventures, but in government securities'<sup>25</sup>. Yet Australian sales to the UK were remarkably resilient in the 1930s. Between 1928 and 1930 UK retained imports from Australia had averaged £42 million, four per cent of the British total<sup>26</sup>. Between 1936 and 1938 supplies from Australia, in the face of lower price levels, nonetheless averaged £62.5 million, and accounted for 7.2 per cent of imports. Even these figures seriously understate the quantity of Australian produce sold to Britain. Figure 2 shows British retained imports from Australia in both current and constant (1928) values. By 1938 the UK was importing more than twice

<sup>24</sup> Lyons to Baldwin, telegram, 17 June 1936, PRO DO 35/256/9105/446. For the vehement Australian reaction to earlier proposals to restrict their supplies of meat, see PRO DO 35/255/9105/198, "Response summarised".

<sup>25</sup> John Curtin, leader of the Labour party, speaking in Parliament, quoted by UK representative in Australia, 19 Nov. 1935, PRO DO 35/259/91053/157. British economic relations with Argentina are discussed by R.Gravil and T.Rooth, "A time of acute dependence: Argentina in the 1930s", *Journal of European Economic History*, 7 (1978), pp. 337-78.

<sup>26</sup> To minimise distortions that may arise from using single years, three-year averages have been used incorporating the peak years for world trade (1929 and 1937) as well as the slump years of 1930 and 1938.

the 1929 volume of products from Australia. This made a vital contribution to absorbing much of the increased agricultural production of Australia during the 1930s. It enabled the rural sector to cushion the impact of depression by increasing production, and since Australia was a net exporter, 'expansion of production was crucially dependent on higher exports'<sup>27</sup>. The UK played a critical role in



<sup>27</sup> B.R. Davidson, 'Agriculture and Recovery from the Depression', in R.G. Gregory and N.G. Butlin (eds), *Recovery from the Depression: Australia and the world economy in the 1930s*, (Cambridge, 1988) p. 275.

consuming much larger quantities of Australian primary produce than in the late 'twenties, albeit at low prices.

Something of the scale of the increased sales involved can be seen in Figure 3. It is clear that these gains were made for a broad range of products, although it does not follow that they were necessarily a result of the Ottawa agreement or that they represented a net gain. They included wool and wheat, the former owing nothing to preferences, and the latter perhaps at the expense of Australian sales elsewhere.

However, as has been suggested above, the Australians had never expected much from the wheat preference, placing much greater emphasis at Ottawa on concessions for their meat and dairy exports. Here there is evidence of Australia benefiting from its privileged position in the British market<sup>28</sup>. An 'experimental' shipments clause allowed Australia to make considerable headway in developing its new trade in chilled beef at a time when Argentine supplies were restricted, and a tariff preference from 1936 was helpful in offsetting higher shipping and other costs. Queensland, which increased its beef production by 64 per cent in the 1930s was able to clear its exportable surplus in every year<sup>29</sup>. Similarly, exports of mutton and lamb benefited from quota restrictions on South American supplies: the Australians had practically doubled shipments between 1930 and 1931 when very low wool prices led to heavy slaughtering<sup>30</sup>; although they never challenged the specialist New Zealand trade, by the end of the decade they accounted for about a quarter of UK imports. Dairy producers also gained from imperial preference, in this case the 15 shillings (75 pence) per hundredweight duty imposed on foreign (mainly North European) butter, although early

<sup>28</sup> The Ottawa agreements set quotas on the basis of import levels in 1932, a year that favoured Australia and was distinctly unfavourable to Argentina whose meat exports had declined between 1927 and 1932. Australia also benefited because its beef was a close substitute for Argentine mutton and lamb which were subject to quota cutbacks. Forrest Capie, 'Australian and New Zealand Competition in the British market 1920-39', *Australian Economic History Review*, 28 (1978). See also Rooth, *British protectionism*, p.232.

<sup>29</sup> R.Duncan, 'Imperial Preference: The Case of Australian Beef in the 1930s', *Economic Record*, 39 (1963), pp.159-60.

<sup>30</sup> Imperial Economic Committee, *Mutton and Lamb Survey 1935*, (London, 1936), p.31

devaluation had led to substantial gains in the British market before preferences were introduced<sup>31</sup>. Australian production and exports rose sharply in volume to the mid thirties, and although then checked by drought, they recovered strongly at the end of the decade: exports increased much faster than output, and by 1934/5 accounted for 56 per cent of production<sup>32</sup>. Dairying was a close settlement industry of the type that Canberra was particularly anxious to develop. Others included sugar, egg production and the various forms of fruit growing. Sales of wine, fruit preserves, apples and eggs all increased, much if not all of the increased production of fruit being channelled to Britain. As Brian Pinkstone comments, 'altogether, fruit exports played a small but positive part in maintaining export income during the early years of the Depression and then aided recovery by providing increased export receipts over the rest of the decade'<sup>33</sup>. Sugar was another beneficiary of preferences as the UK substituted cane sugar for European beet sugar<sup>34</sup>. In the minerals sector lead also made advances. Measured by current prices the overall picture was one of widespread if unspectacular gains, but measured by volume the growth of sales was massive.

### **Canadian exports**

Canadian sales to the UK expanded even more impressively. The Canadian achievement is the more remarkable because of sectoral weaknesses: three of the most important exports in the late 1920s all recorded lower sales figures in the post-agreement period. Wheat was the most catastrophic failure, imperial preference notwithstanding. In the 1920s Canadian wheat sales to Britain had averaged \$107 million; during

<sup>31</sup> Pinkstone, *Global Connections: A History of Exports and the Australian Economy* (Canberra, 1992), p.112. The duty was roughly equivalent to 15 per cent at price levels prevailing in the early 1930s.

<sup>32</sup> Imperial Economic Committee, *Dairy Produce Supplies, 1935*, (London, 1936), p.65 and *Dairy Produce Supplies, 1937*, (London, 1937), pp.75-6. In 1929/30 the corresponding figure had been 36 per cent.

<sup>33</sup> Pinkstone, *Global Connections*, p.114.

<sup>34</sup> Bill Albert and Adrian Graves, 'Introduction', and Graves, 'Crisis and Change in the Australian Sugar Industry', in Albert and Graves (eds), *The World Sugar Economy in War and Depression 1914-40*, (London, 1988).

the 1930s they were worth \$57 million<sup>35</sup>. There was a re-direction of grain sales, proportionately more wheat going to Britain and less to other markets, and one unexpected side effect in that the trade of Halifax and Saint John received a stimulus: because of the British Customs' insistence that proof of imperial origin could only be established by shipment from Dominion ports, the winter wheat trade was channelled through the Canadian Atlantic ports instead of New York<sup>36</sup>. Although Canada increased its share of British wheat imports, this was of little help to Canadian farmers. Far more important to the fortunes of the wheat industry than preferences were marketing policies and the state of Canadian harvests. Early in the 1930s wheat was held off world markets and in the later 1930s poor harvests kept exports low; this helped ensure that Canada's share of world wheat exports declined in the 1930s<sup>37</sup>. The Anglo-Canadian agreement was unable to alleviate the distress of the prairie wheat farmers, and it is significant that when the preference was withdrawn at the beginning of 1939 there was no outcry<sup>38</sup>.

Although much less important than wheat, cheese was another product that failed to regain its pre-depression level of sales. Preferences were of little value to dairy producers. They may have helped against Denmark, but were of no assistance against the formidable competition of New Zealand. Even at the best of times Canada was ill-equipped to deal with this, certainly when it came to butter, and in the 1930s had to cope with an exchange rate handicap as well<sup>39</sup>. Nor did Ottawa show any of the inclination of Australasian governments to subsidise dairy exports.

<sup>35</sup> Canadian export statistics have to be adjusted for the corrections made by J. Stovel, *Canada in the World Economy*, pp.327-8. Table 1 reveals the decline in the value of wheat exports, mainly because fiscal 1928 includes the large shipments made from the 1927 harvest. British import records, using calendar years, show a small increase between the two periods: 1928-30 - £18.7m average; 1936-8 - £19.9m average.

<sup>36</sup> Wilson, *Canadian Grain*, p.346.

<sup>37</sup> International Institute of World Agriculture, *World Trade in Agricultural Products, its Growth, its crisis and the New Trade Policies*, (Rome, 1940), p.47.

<sup>38</sup> Wilson, *Canadian Grain*, p. 576.

<sup>39</sup> W.M. Drummond, 'Problems of the Canadian Dairy Industry' in H.A. Innis (ed.), *The Dairy Industry in Canada*, (Toronto, 1937), especially pp.144, 150-54, comparing production and transport conditions in Canada with Denmark and New Zealand.

Wheat had dominated Canadian sales to the UK during the 1920s. Yet despite its weak performance in the 1930s, the expansion of other sectors was so powerful that by the end of the 1930s Canadian exports to Britain were well above pre-depression levels even when measured in current prices. Gains were made on a wide front. Bacon exports were one success unambiguously attributable to the Ottawa agreement. Severe quotas on foreign supplies led to a rapid rise in bacon prices in the UK market in 1933 and 1934, giving Canadian pig farmers a major sales opportunity. In 1931-32 exports of bacon and ham had been worth \$2 million. By the late 1930s they were worth more than \$26 million, and Canada accounted for twenty percent of UK bacon imports. This represented a useful export income and it also cushioned farmers against the decline of domestic consumption.

Timber sales also benefited. At Ottawa, Bennett had attached little weight to bigger preferential tariffs on foreign timber, instead placing his faith in the anti-dumping clause<sup>40</sup>. As mentioned before, Canadian fears about Soviet competition as a long term threat were exaggerated<sup>41</sup>. The anti-dumping article benefited Canada little, but the timber preference

**TABLE 1: Selected Canadian domestic exports to UK  
Fiscal years 1928-30, 1932, 1936-38 (\$000s)**

	1928-30 (average)	1932	1936-8 (average)
Apples	4,693	5,577	6,788
Wheat <sup>1</sup>	103,000	34,000	70,000
Wheat flour	17,099	7,318	11,252
Bacon etc.	7,478	1,751	26,497
Cheese	18,898	10,005	9,066
Sawmills etc.	7,601	13,982	19,267
Nonferrous metals <sup>2</sup>	15,515	14,936	71,335
Other products	87,898	65,174	117,218
Total	262,182	142,743	331,655

1 Adjusted for Stovel's amended figures  
2 Excludes precious metals  
Source: Dominion Bureau of Statistics, *Canada Year Book* (Ottawa, selected years)

<sup>40</sup> PRO, CAB32/102, forty-ninth and fifty-first meetings, 13 and 15 August 1932.

<sup>41</sup> Drummond, 'Empire Trade and Russian Trade'.

assisted more than British officials had anticipated. They had argued that the distance between British Columbia and the UK, plus the fact that timber preparations were geared to North American requirements, would mean that only vast preferences would be of much help. This was probably true of North European competition where the Scandinavian and Baltic countries increased their share of UK timber imports in the 1930s. What apparently was overlooked was American west coast competition from Oregon and Washington, areas which may well have had lower production costs than British Columbia<sup>42</sup>. The central role of housebuilding in the UK recovery, with the consequent demand for clear lumber of adequate width and length, placed a premium on Pacific Coast supplies. A preference of ten and sometimes fifteen or twenty percent (according to type of timber preparation), and, moreover, one that was applied on a landed-cost basis, gave British Columbia a great advantage, and an advantage that was enhanced by the depreciation of the Canadian dollar<sup>43</sup>. Nor did the industry leave things to chance, leading British Columbia lumber men visiting the UK to persuade import merchants, dealers, architects and municipal housing authorities of the virtues of their product. Exports of lumber, doors and plywood to Britain became the backbone of the business, 60 per cent of timber cut in the province being exported and more than 80 per cent of that to Britain<sup>44</sup>. According to UK trade statistics, imports of Canadian timber by 1936-8 were averaging £7.3 million, well over three times the values of 1928-30. On top of this was a useful trade, worth about one million pounds, in wood manufactures. Timber preferences helped lock Canada into a fast-expanding market. This provided valuable mitigation for the loss of sales to the USA.

The most spectacular advance, however, was in non-ferrous metals. Although in part this was a result of the early recovery in British demand, and later the role of rearmament, of much greater impact was

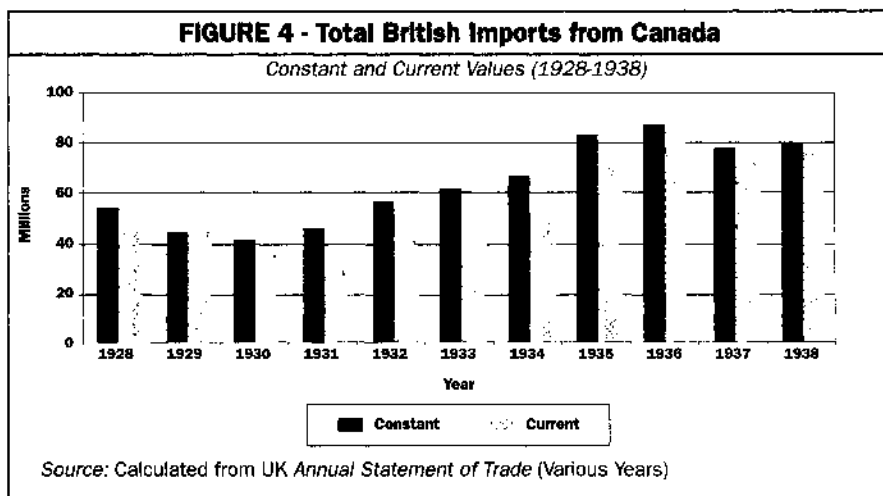
<sup>42</sup> W.A. Carrothers, 'Forest Industries of British Columbia' in A.R.M. Lower (ed.), *The North American Assault on the Canadian Forest*, (Toronto, 1938), pp. 307-8.

<sup>43</sup> The US dollar was at an average premium against the Canadian dollar of fourteen cents in 1932 and nine cents in 1933. Stovel, *Canada in the World Economy*, p.251.

<sup>44</sup> G.W. Taylor, *Timber: History of the Forest Industries in British Columbia*, (Vancouver, 1975), p.121. See also Donald MacKay, *Empire of Wood: The MacMillan-Bloedel Story*, (Seattle, 1982), pp.112-3 for the importance of the Ottawa agreements for BC lumber.

the increase in market share that Canadians staked out for themselves. This had little to do with preferences: that on copper was never implemented and the nickel duty was removed in July 1933. In the view of E. Marcus, much of the gain was a tribute to the rapidly growing competitive strength of the Canadian industry<sup>45</sup>. But there were other contributory factors - when in May 1932 the Americans imposed a 'revenue' duty on copper (equivalent to a seventy-two percent ad valorem tariff), fabricators in the U.K. agreed to use 'British' - that is Empire - copper. This was a major bonus, as the export statistics in Table 1 show - and the USA was largely displaced as a copper supplier.

Sales of many other products to Britain increased during the 1930s. Canadian apple growers overtook the US to become the major source of imports. A wide range of manufactures also found increasing outlets in Britain. Not the least of the benefits that Canada (and Australia) obtained from the treaty was a measure of security against British agricultural expansion: although Whitehall became more solicitous of Britain's farmers, Canada was able to fight off attempts to place duties on its food supplies and London was forced to develop other techniques of agricultural support<sup>46</sup>.



<sup>45</sup> E. Marcus, *Canada and the International Business Cycle 1927-1939*, (New York, 1954), pp. 133-140.

On the basis of British statistics, retained imports from Canada rose from an average £44.6 million in 1928-30 to £76 million in 1936-8, a rise of 70 per cent in value at a time of falling prices and in the face of an overall decline of imports into the UK. Canada more than doubled its share of the UK market from four to nine percent of total imports. In league table terms Canada moved up from ninth place in the British market in the late 1920s to second place, behind only the USA, by the eve of World War 2.

### Trade diversion

Both Canada and Australia therefore made substantial relative and absolute gains in the British market. But was this the result of trade diversion, in that exports to other markets suffered in consequence? Wheat, as previously suggested, may well have been an instance of this: by the late 'thirties Russian exports were well below the peak years of 1930 and 1931, and with North American production devastated by weather conditions, Australia might have been expected to benefit, but despite the additional shipments to Britain, failed to make any significant inroad into world markets<sup>17</sup>. Canada also sent proportionately more wheat to Britain.

Trade wars may have reinforced this process. The Australian Trade Diversion Policy implemented in 1936 is a notorious example. This involved restrictions on imports from the US, especially motor chassis, and steep tariff increases on foreign textiles, notably from Japan, and has been the subject of controversy since its inception<sup>18</sup>. Arguing that

<sup>16</sup> T. Rooth, 'Trade Agreements and the Evolution of British Agricultural Policy in the 1930s', *Agricultural History Review*, XXXIII (1985), pp. 173-190.

<sup>17</sup> International Institute of Agriculture, *World Trade in Agricultural Products: its growth, its crisis and the new trade policies*, (Rome, 1940), pp. 1048, 1023, 1068-9. However, Australian production in the early 1930s had been greatly inflated by the 'grow more wheat' campaign.

<sup>18</sup> D.P.Copland and C.V.Janes (eds.), *Australian Trade Policy - A Book of Documents 1932-37*, (Sydney, 1937); N.F.Hall, 'Trade Diversion' - an Australian Interlude', *Economica*, no. 5 (1938), pp. 1-11; H.Burton, 'The "Trade Diversion" Episode of the 'Thirties', *Australian Outlook*, 22 (1968), pp. 7-14; K.Tsokhas, *Markets, Money and Empire: The Political Economy of the Australian Wool Industry*, (Melbourne, 1990), ch.7.

this was a policy of diverting trade from Japan and the USA to Britain, John O'Brien has castigated the Australian government for its introspective view of Empire trade and its assumption that Britain would reciprocate. In his view it epitomises the way in which Canberra neglected and even sacrificed sales opportunities elsewhere, and in this instance Australia paid an immediate price in the form of a sharp decline in wool sales to Japan as its buyers boycotted the wool auctions<sup>49</sup>. There is little doubt that Australia was reacting to pressure from Britain to do something to assist its cotton textile exports which were suffering from Japanese competition<sup>50</sup>. In turn, the Australian government desperately needed concessions from the British: failure to win something was seen by prime minister Lyons as likely to wreck his government, and in London his coalition partner, Earle Page, badgered the British, even suggesting that the fall of the Australian government would be their downfall too<sup>51</sup>. Although Australia accordingly won some concessions from Britain for its meat exports<sup>52</sup>, it seems likely that the underlying motives were defensive. In implementing the trade diversion policy, A.T. Ross has argued that the statesmen of Canberra were pursuing a difficult but clear-sighted policy<sup>53</sup>. With poor prospects for primary products in the UK market, and frustrated in its search for alternative external markets, Australia's development strategy depended on the expansion of manufacturing industry. Since this necessarily entailed restricting the market for UK manufacturing exports, it was a hazardous policy that might well have induced Britain

<sup>49</sup> J.B. O'Brien, 'Empire v. National Interests in Australian-British Relations during the 1930s', *Historical Studies*, 22 (1987), pp.582-3. However, Tsokhas argues that the wool growers were compensated by sales elsewhere, and Ross emphasises that it was the Japanese woollen industry that was the main loser: Tsokhas, *Markets*, pp.117-8, and A.T. Ross, 'Australian Overseas Trade and National Development Policy 1932-1939: a story of colonial larrikins or Australian statesmen?', *Australian Journal of Politics and History*, 36 (1990), pp.193-5.

<sup>50</sup> D.C.S. Sissons, 'Manchester v. Japan: The Imperial Background of the Australian Trade Diversion Dispute with Japan, 1936', *Australian Outlook*, 30 (1976).

<sup>51</sup> Telephone conversation between the PM and Sir Henry Gulleit, Canberra, and Dr. Page, London, 24 June 1936, National Library of Australia, Lyons Papers (MS 4851), Box 1, folder 10.

<sup>52</sup> PRO CAB 27/619, TAC (36), 6th meeting, 24 June 1936.

<sup>53</sup> Ross, 'Australian Overseas Trade'.

to retaliate against Australia's primary products. 'Australian governments successfully walked a knife's edge, maintaining the primary export structure with Britain while developing secondary industry to the detriment of British trade with Australia'<sup>54</sup>. The other main component of the trade diversion policy, that which worked to the disadvantage of the USA and Canada, was almost certainly aimed predominantly at stimulating the expansion of Australian secondary industry. Restrictions on motor chassis imports were designed not so much to divert trade to the UK as to encourage the development of the Australian automobile industry, particularly by getting US or preferably British firms to produce in Australia<sup>55</sup>. Relations with the USA deteriorated as a trade war broke out. Australia failed to secure better treatment for its exports to the USA, despite having in 1938 to acquiesce in some reduced preferences in the British market<sup>56</sup>.

Canadian experience was very different. Although it had suffered badly from the collapse of sales to the US, there is little evidence that the Americans retaliated against Canada because of the imperial agreements. Cordell Hull, detesting the evil economic empire, set out to destroy it, and armed with the Reciprocal Trade Agreements Act of 1934, was able to offer Ottawa inducements in the form of reduced protection of the US market. Bennett, notwithstanding his imperial rhetoric, had sought trade concessions from Washington as soon as Roosevelt came to office. Although trade discussions were conducted by the Bennett administration, it was Mackenzie King who brought them quickly to fruition once he regained power in 1935, probably conceding more than Bennett had been prepared to do<sup>57</sup>. Although the Anglo-Canadian trade agreement of 1932 limited concessions to the US

<sup>54</sup> *Ibid.*, p.185.

<sup>55</sup> Burton, 'Trade Diversion', p.9.

<sup>56</sup> Ruth Megaw, 'Australia and the Anglo-American Trade Agreement, 1938', *Journal of Imperial and Commonwealth History*, 3 (1974/5).

<sup>57</sup> Anticipating this, the US had stalled on completing the negotiations until after the election: Marc Boucher, 'The politics of economic depression: Canadian-American relations in the mid-1930s', paper presented to the Association of Canadian Studies meeting, Montreal, 1985; also see Ian M. Drummond and Norman Hillmer, *Negotiating Freer Trade: The United Kingdom, the United States, Canada and the Trade Agreements of 1938*, (Waterloo, Ont., 1989).

until the triangular negotiations were completed in 1938, Canada was able to benefit from the very rapid American recovery between 1933 and 1937, the 1935 treaty consolidating the process<sup>58</sup>.

### **Exports and recovery**

It seems probable that some of the increased sales made by Australia and Canada to the UK were at the expense of their exports to third markets. As anticipated before and during the Ottawa Conference, these would have been confined largely to wheat and wool, although for Australia trade diversion would certainly have aggravated the process. The scale of the Australian and Canadian export expansion to Britain during the 1930s was a remarkable achievement when viewed against the devastation of world trade that occurred during the depression. Exports to Britain almost certainly played a part in initiating Canadian economic recovery. As Safarian observed, Canadian exports to the UK had started to rise well before those to the USA and it was these that eventually reversed Canada's downswing. 'Total exports to the United Kingdom rose in 1932 as a whole while those to the United States and other countries continued to fall. After July 1932 exports to the United Kingdom began to persistently exceed the levels of the same months one year earlier'<sup>59</sup>.

In the case of Australia, exports to Britain were even more central to the recovery process. In Eichengreen's analysis, Australia's export volume increased far more than would have been predicted by the extent of currency devaluation, a performance that he suggests has much to do with the prospects and policies of its principal trading partner<sup>60</sup>. The spectacular expansion in volume helped to maintain output and employment, although because export prices remained low

<sup>58</sup> For an analysis emphasising the influence on Australia and Canada of their dominant trading partners, the UK and USA respectively, see Alan Green and Gordon Sparks, 'A Macro Interpretation of Recovery: Australia and Canada', in Gregory and Butlin, *Recovery from the Depression*.

<sup>59</sup> Safarian, *Canadian Economy in the Great Depression*, p.119

<sup>60</sup> Barry Eichengreen, 'The Australian Recovery of the 1930s in Comparative Perspective', Gregory and Butlin (eds), *Recovery from the Depression*, pp.47-50.

and the terms of trade unfavourable, the growth of sales did less for incomes. From an Australian perspective, the British market remained open, absorbing considerably increased quantities although at low prices. With 1937 exports at 20.7 per cent of GDP<sup>61</sup>, much higher than before the slump, the value of the UK market is apparent. A major part of increased Australian primary production was exported to the UK. Since agricultural output, expressed in constant values, increased in absolute terms and as a percentage of GDP during the downturn, it played an important role first in ameliorating the depression and later in sustaining economic recovery<sup>62</sup>.

### Trade and external adjustment

Export growth was also an important part of the process of external adjustment. As previously noted, both countries were earning more from sales to the UK by 1936-8 than before the slump. The restoration of equilibrium demanded that not all the extra sterling earnings were frittered away on buying more from the UK. This is an important factor in explaining why British export performance in both markets, as indicated in Table 2, was so poor<sup>63</sup>. The total imports of both Australia and Canada contracted dramatically in the early stages of the slump, and failed to recover their pre-depression levels before the war. It is the behaviour of total imports rather than the loss of market share that explains why British exporters did so badly. Indeed, the Ottawa agreements, by increasing preferential margins for British exports, had provided a basis for trade diversion. In Canada the average margin of preference for British imports rose from 7 per cent in 1929 to 20 per cent

<sup>61</sup> Pinkstone, *Global Connections*, Table 63.

<sup>62</sup> Davidson, 'Agriculture and Recovery', p.287. Other accounts also emphasise, in contrast to Schedvin's, the central role of the rural sector in economic recovery. See Pinkstone, *Global Connections*, pp.110-111, and Dyster and Meredith, *Australia and the international economy*, p. 147, who, however, also stress that expansion of rural output and money income was not translated into jobs. Mark Thomas plays down the role of manufacturing: Thomas, 'Manufacturing and economic recovery in Australia, 1932-37', Gregory and Butlin (eds.), *Recovery from the Depression*, pp.246-8.

<sup>63</sup> This is discussed by Rooth, *British protectionism*, esp. pp. 250-8.

in 1937; the corresponding figures for Australia are 13/14 and 19/20 per cent<sup>64</sup>. In both cases the British share of imports rose after 1930, peaking in 1933 (Canada) or 1934 (Australia) before falling again as incomes began to recover and as international competition intensified. But it was the behaviour of total imports that was the key to explaining the failure of British exports to regain their pre-slump level. In Canada the depth of the depression and the slow and partial recovery helped to keep imports low<sup>65</sup>. But protectionism played its part too: import substitution occurred over a wide range of production, the import content of Canadian supplies of manufactures falling from 24 per cent in 1929 to 16 per cent by 1937<sup>66</sup>. Australian output was far more resilient than in Canada, real GDP rising by 20 per cent between 1928/9 and 1937/8. High protectionism helped to reduce the import content of manufactures from 37 per cent in 1929 to 25 per cent in 1937<sup>68</sup>.

**TABLE 2: British domestic exports to Australia and Canada (£m)**

	1928-30	1936-8
Australia	47.2	36.0
Canada	32.9	24.4
Source: UK Annual Statement of Trade (various years)		

<sup>64</sup> D MacDougall and R.Hutt, 'Imperial preference: a quantitative analysis', *Economic Journal* 64 (1954) p. 241.

<sup>65</sup> Despite an increase in population, by 1938 Canadian total GNP had failed to recover its 1929 level. Safarian, *Canadian Economy*, pp. 2 and 223.

<sup>66</sup> Maizels, *Growth and Trade*, p.136. On import substitution, see examples in H.E. English, *The role of international trade in Canadian economic development since the 1920s* (California, 1957, microfilm), pp.213,257,342 and 373, and J.H. Dales, *The protective tariff in Canada's development*, (Toronto, 1966).

<sup>67</sup> N.G. Butlin, *Australian Domestic Product*, p. 33.

<sup>68</sup> Maizels, *Growth and Trade*, p.136. Schedvin places great emphasis both on the role of import replacement in the Australian recovery and in the contribution of devaluation, tariffs and difficulties faced by importers in obtaining sterling exchange in achieving the import substitution: Schedvin, *Australia and the Great Depression*, p.303. For a different explanation of reduced imports, see M. Thomas, 'Manufacturing and economic recovery in Australia, 1932-37', Gregory and Butlin (eds.), *Recovery from the Depression*.

## Benefits to Britain

Measured by export performance, Britain appears to have had a raw deal from the Ottawa agreements, and this contributed to industrialists' dissatisfaction<sup>69</sup>. Did Britain yield too much to the importunities of Australia and Canada? Certainly this has been argued, and there was some harsh criticism of the weakness of British ministers at Ottawa<sup>70</sup>, although most critics were more bothered by their failure to secure more for British exports. It is true that the UK government was constrained from exerting full economic pressures both because, of an overriding concern with preserving imperial unity and because for domestic political reasons, it needed to return from Ottawa with agreements concluded. Yet over the course of the decade there were substantial economic benefits for Britain from the imperial relationship. British consumers benefited from low food and raw material prices. To the extent that weak exports were the consequence of low primary producer incomes, there was at least some compensation for British industrialists in the boost to domestic purchasing that stemmed from the favourable terms of trade. Because of the small size of its agricultural sector Britain was uniquely well placed to benefit from cheap world food, and this was reinforced because the system of agricultural protection that evolved in Britain during the 1930s kept most food prices low.

However, British interests were concerned not merely with commodity exports but with the safety of overseas investments and the associated income flow. This is clearly exemplified in the Australian case. Governments, both at Federal and State levels, were under extreme budgetary pressure. The balance of payments created grave problems of external liquidity. The continued servicing of the overseas

<sup>69</sup> Although as Holland has noted, the Federation of British Industries helped to play this down, thus winning the gratitude of British government. R.F. Holland, 'The Federation of British Industries and the International Economy, 1929-39', *Economic History Review*, 2nd ser. XXXIV (1981), p.292.

<sup>70</sup> See for example the views of Geoffrey Whiskard, a senior British official at the conference, highly critical of the ineptness of the British delegation: Whiskard to Harding, 16 and 22 August 1932, PRO DO 121/61.

debt was a contentious political issue, all the more so in the light of reduction in interest rates on domestically held debt by 22<sup>1/2</sup> per cent. Yet there were no defaults, the Australian Commonwealth government paying the interest on the New South Wales debt when the State government declared a moratorium. Although the Commonwealth government was able to obtain some limited amelioration by the debt conversion operations carried out in London in 1933-4<sup>71</sup>, nonetheless overseas servicing continued to absorb around £40 million a year (Australian devaluation raised the domestic currency cost of servicing sterling and dollar denominated debt). Schedvin has questioned the wisdom of such rectitude, stating that 'Australia's slavish adherence to the principle of sanctity of international contracts' led to the payment of a high price in terms of unemployment<sup>72</sup>. Dyster and Meredith suggest that in retrospect Australia 'might have got away with calling the creditors' bluff'<sup>73</sup>. Subsequent international experience lends support to this view<sup>74</sup>. Instead, Australians suffered. For the UK, as Peter Cain has argued, a major deterioration in Britain's trade balances with the Dominions had to be accepted if they were to service their debts and were to rebuild their sterling balances<sup>75</sup>. The Australian decision to honour its debt servicing commitments certainly benefited the incomes of British rentiers, but it also contributed to reducing Australian purchasing power and to the brutal squeeze on imports that helped to depress UK exports. The necessary corollary was the expansion of secondary industry: 'Keeping Australia as a fully functioning member of the Sterling Area in the 1930s meant that her industrialisation was encouraged at Britain's expense'<sup>76</sup>.

<sup>71</sup> N. Cain and S. Glynn, 'Imperial Relations under Strain: the British-Australian Debt Contretemps of 1933', *Australian Economic History Review*, 25 (1985), pp.39-58.

<sup>72</sup> Schedvin, *Australia and the Great Depression*, p.254.

<sup>73</sup> Dyster and Meredith, *Australia and the international economy*, p.142.

<sup>74</sup> Barry Eichengreen and Peter H. Lindert, 'Overview', Eichengreen and Lindert (eds), *The International Debt Crisis in Historical Perspective*, (Cambridge, Mass., 1989), p.5.

<sup>75</sup> P.J.Cain, 'Free Trade, Protection and the Sterling Area in the 1930s', Discussion Paper, Institute of Commonwealth Studies, University of London, 2 March 1989.

<sup>76</sup> P.J.Cain and A.G.Hopkins, *British Imperialism: Crisis and Deconstruction 1914-1990*, (London, 1993),123-4.

The Canadian connection is less direct. Canada was not a member of the sterling area, and a much smaller proportion of its international debt was held in London than that of Australia. Yet the British, cherishing hopes that Canada would join the sterling area, pressed for this during the 1930s (and long after)<sup>77</sup>. London also maintained an interest in the uninterrupted servicing of debt. In both London and Ottawa high priority was placed on Canadian external solvency.

## Conclusion

For both Australia and Canada the British market played a vital role in balance of payments re-adjustment under conditions of immense difficulty in the 1930s. Britain continued to fulfil at least part of the role of international stabiliser, not for the world as a whole (that was well beyond its capacity by this time) but for a number of favoured primary exporters. The main brunt of British protectionism fell on industrial imports while that on foodstuffs and raw materials was generally much lighter, the structuring of agricultural protection in the 1930s keeping the import market for most food relatively open. Imperial preferences created a highly favourable environment for intra-imperial trade, but the sharp increase in Dominion exports was also a result of informal preferences, improved competitiveness and energetic marketing. By the late 1930s both Australia and Canada were earning far more from sales to Britain than in the late 1920s, and since international capital flows had dried up, these increased earnings were crucial in enabling both Australia and Canada to transform current account deficits into surpluses and at the same time to continue servicing debts. Yet as has been emphasised here, the growth of export volume was even more impressive, and contributed to economic recovery of both countries. For Canada the importance of the British market has been obscured by poor wheat sales. Yet compensation was found over a diverse range of products with non-ferrous metals and timber being particularly

<sup>77</sup> P.J. Cain, 'Gentlemanly imperialism at work: the Bank of England, Canada, and the sterling area, 1932-1936', *Economic History Review*, XLIX (May 1996), pp.336-57.

prominent. The ability of Britain to absorb hugely increased quantities of Australian produce is curiously at odds with the pessimism expressed about the long-term future of the British market and the bitter resentment about London's refusal to award Australia preferences on the scale demanded. While increased sales to Britain played a modest part in initiating the Canadian recovery, the greater relative importance of Britain to Australia was reflected in a more central role in the revival of Australian output.

Of necessity British exporters did badly in return. There were compensations however. In political/strategic terms imperial unity, perceived as vital for Britain's international status, and valued all the more with the rise of European fascism and growing tensions in Asia, was preserved. In economic terms cheap food and raw materials boosted living standards and the continued servicing of international debts reaped benefits for the City of London.