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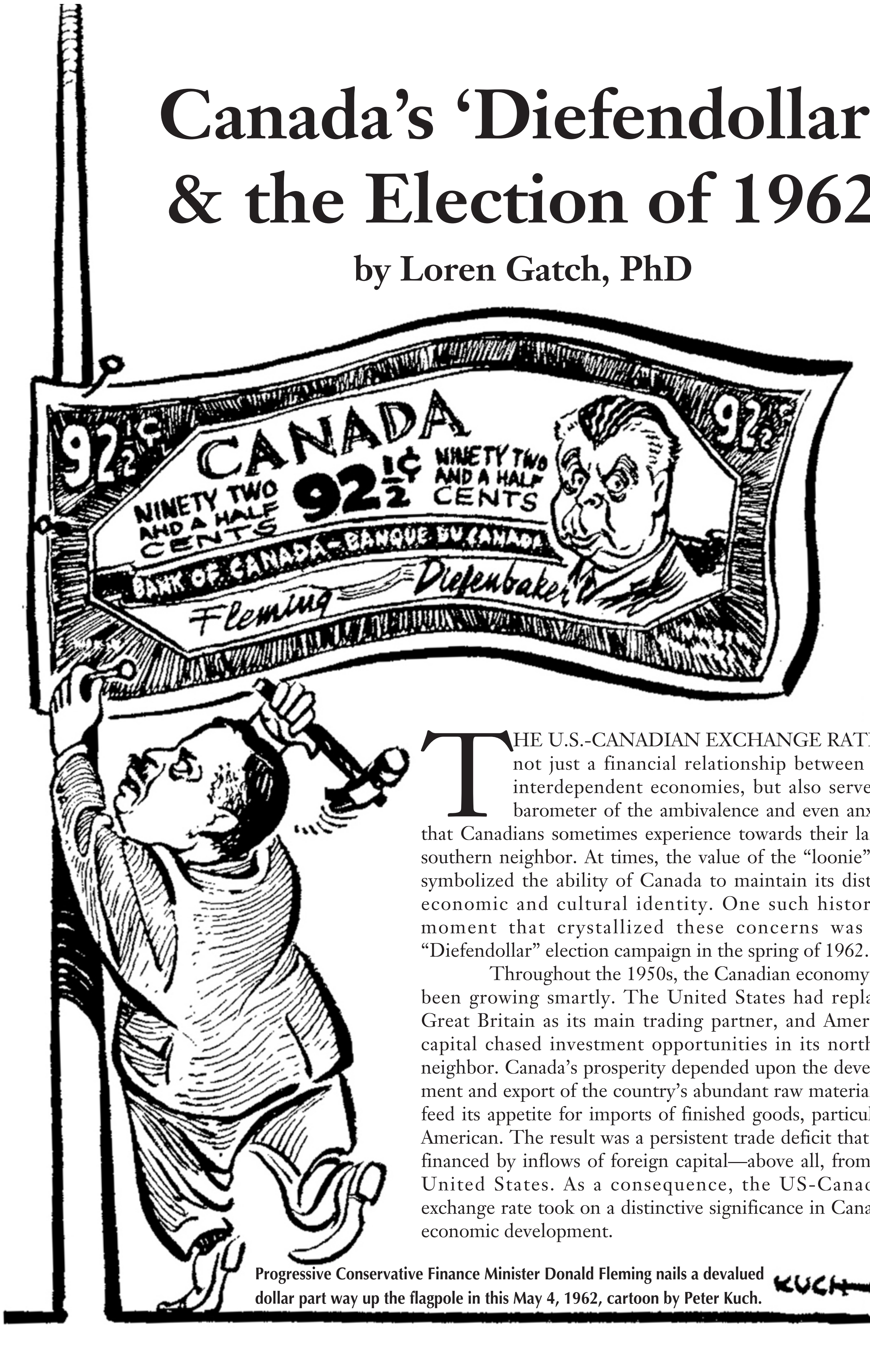
The Indian Princess Vignette Used on Obsolete Currency

By Joseph J. Gaines Jr.

Canada's 'Diefendollar' & the Election of 1962

by Loren Gatch, PhD



Progressive Conservative Finance Minister Donald Fleming nails a devalued dollar part way up the flagpole in this May 4, 1962, cartoon by Peter Kuch.

THE U.S.-CANADIAN EXCHANGE RATE IS not just a financial relationship between two interdependent economies, but also serves as barometer of the ambivalence and even anxiety that Canadians sometimes experience towards their larger southern neighbor. At times, the value of the "loonie" has symbolized the ability of Canada to maintain its distinct economic and cultural identity. One such historical moment that crystallized these concerns was the "Diefendollar" election campaign in the spring of 1962.

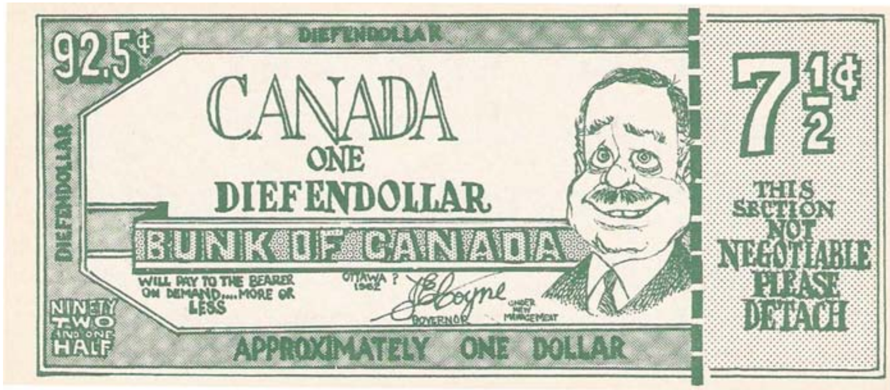
Throughout the 1950s, the Canadian economy had been growing smartly. The United States had replaced Great Britain as its main trading partner, and American capital chased investment opportunities in its northern neighbor. Canada's prosperity depended upon the development and export of the country's abundant raw materials to feed its appetite for imports of finished goods, particularly American. The result was a persistent trade deficit that was financed by inflows of foreign capital—above all, from the United States. As a consequence, the US-Canadian exchange rate took on a distinctive significance in Canada's economic development.

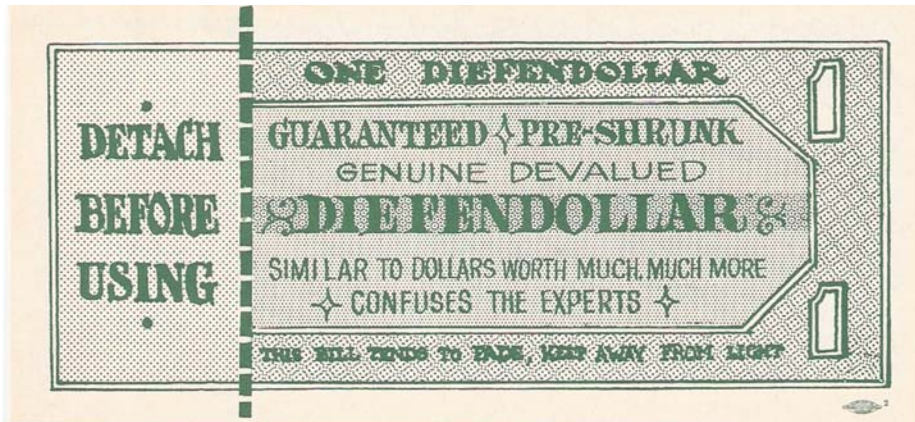
Unlike other major developed economies, Canada since 1950 had opted out of the Bretton Woods system of fixed exchange rates in favor of a flexible regime managed by the Bank of Canada. By 1952 the Canadian dollar was consistently trading above parity with its American counterpart, partly thanks to the tight-money policies of James E. Coyne, governor of the Bank of Canada. Yet this stability represented a precarious balance. A strong currency attracted the funds to finance Canada's external deficits but crimped exports. A weak currency advantaged exports but limited the ability of Canadian consumers to buy imports. Key to this balance was maintaining the confidence of foreign (and domestic) investors in the value of their Canadian assets.

For their part, Canadians feared dependence on the immense American market and control of their economy by American interests. Canadians pushed back in a variety of ways against American domination. Even the advent of middle-class prosperity in the American style had its detractors. As the eminent novelist Hugh MacLennan counseled, Canada should resist the pull of "a sleazy mass culture not our own" (clearly, this sentiment predated the birth and export of Pamela Anderson to the United States).

One politician who pushed back against the Americans was John George Diefenbaker (1895-1979), who became Canada's 13th Prime Minister on June 21st, 1957. The populist leader of the Progressive Conservative Party, "Dief the Chief" styled himself as a nationalist defender of "One Canada" against American influence. He also took the side of ordinary Canadians against the elitism of Lester Pearson's Liberals and their American allies in the Democratic Party. Concerned with rising unemployment in the late 1950s, the economic policies of Diefenbaker and his finance minister Donald Fleming combined tax cuts, spending increases, and measures to ease credit. In particular, by June 1961 Diefenbaker had engineered the resignation of the Liberal-appointed Coyne, whose tight monetary policies at the Bank of Canada seemed to place the needs of foreign investors above those of Canadians at home.

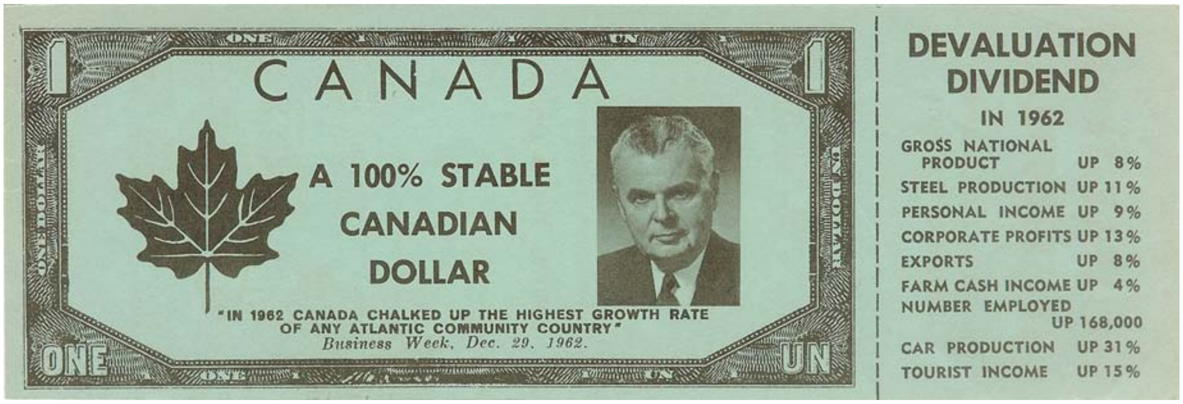
John G. Diefenbaker honored by this First Day Issue





April 1962 appeared a good moment for the Tories to dissolve Parliament and call a national election for June 18th. In retrospect their timing was terrible, for shortly after the announcement the Canadian dollar came under severe speculative attack. Pressures had been building since the beginning of the year, as the currency drifted below parity, but the movement turned into a rout as international confidence evaporated even in the face of massive support from Canada's Exchange Fund. On May 2nd the government threw in the towel and announced a peg of the Canadian dollar at 92.5 American cents. Speculative pressure on the new rate nonetheless continued unabated.

While a lower loonie was a good thing for Canada's balance of payments, the crisis was a blow to the country's self-regard and politically disastrous for the Diefenbaker government. Erupting in the middle of an election campaign, the devaluation crisis was seized upon by the Liberals who turned the contest into a referendum on Tory mishandling of the Canadian dollar's value as a symbol of the country's economic vitality and independence. Diefenbaker's jowly facial fea-



tures begged for caricature, and were the particular target of Peter Kuch, staff cartoonist with the *Winnipeg Free Press* and longtime interpreter of the Diefenbaker visage. As shown on the previous page, Kuch depicted Fleming nailing a devalued dollar to the mast in a May 4, 1962, cartoon.

Editorial cartoons lampooning Diefenbaker were shortly followed by the production of "Diefendollars" or "Diefenbucks" that circulated by the thousands at opposition campaign rallies.

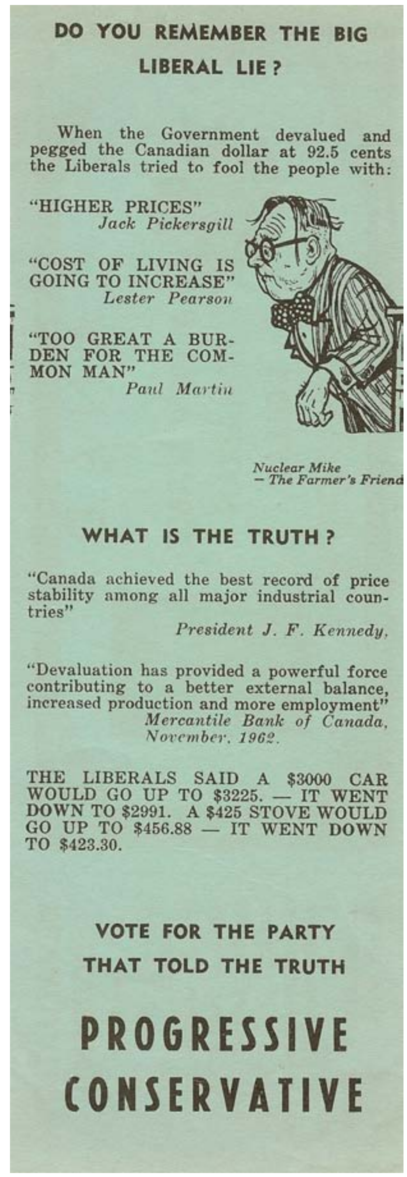
Two main varieties of the 92.5 cent denominated Diefendollar are extant. The first note (**shown opposite above**), issued by the "Bunk" of Canada, features a rather addled-looking Donald Fleming in the place of the Queen, with the right portion of the bill labeled "7½¢" marked off with dashed lines indicating that portion of the Canadian dollar that had been 'detached' by the May 2nd devaluation. The signature of the former Bank of Canada governor Coyne is crossed out, as the bank was now "under new management." The back further hammers home the loss in Canadian purchasing power which the Diefendollar represented. This note first appeared at Vancouver election rallies.

The second variety (**shown opposite**) was derived from Kuch's May 4th caricature of Diefenbaker. Kuch's dyspeptic rendering of "the Chief" was printed and distributed by Orson Wright, publisher of the *Northern Mail* in Le Pas, Manitoba. This parody issue of the "Bank of Kuch" became a staple of Liberal Party electioneering.

Clever as were the anti-Diefenbacker props politically, the economic analysis implied by these Diefendollars was somewhat unfair to their namesake. The 92.5 cent peg didn't really represent a 7.5 cent devaluation, given the recent downward float of the currency. Moreover, there were sound macroeconomic reasons for a lower level.

For their part, Diefenbacker's supporters pushed back with a green bill of their own enlarged to about 8⅛ inches across. It also had a tab stressing economic development successes. The Progressive Conservative "100% Stable Canadian Dollar" **(above and right)** claimed the Liberals were lying to the public, and boasted their party's economic policies had pushed up the country's Gross National Product, Income, Profits, Exports, Tourism and output of key heavy industries. A much more flattering image of Diefenbacker appears on the note's face, while a unflattering caricature of a decrepit Lester B. Pearson is posted on the back of the handbill.

Pearson's nickname was "Mike," and "Nuclear Mike" seems to be a reference to the Liberals' more favorable attitude towards the stationing of American atomic weapons on Canadian soil. The nuclear issue was Diefenbaker's real beef with the U.S during the early 1960s. Nonetheless, the political damage was done. Speculators had pushed the Canadian dollar below parity, and this had happened on Diefenbaker's watch. Faced with increasing-



Both Diefenbaker and his finance minister Donald Fleming are lampooned on this double-header Diefenbuck.

ly skeptical and raucous crowds Diefenbaker and the Conservatives lost ninety-two seats in the June elections, and limped along in power as a minority government until 1963, when Pearson's Liberals took over. Particularly galling for ordinary Canadians was the sudden end to American merchants' willingness to accept Canadian currency for routine transactions. As a result, Tory election losses in the June 1962 debacle were concentrated in districts along the American border where the lower dollar hurt Canadians' purchasing power.

As if on cue, just a few days after the election the currency crisis came to an end when Canada announced an austerity package of tax increases, import surcharges and credit-tightening measures. These moves, combined with help from the U.S. Federal Reserve and the International Monetary Fund, ended the drain on the country's foreign exchange reserves, which had fallen from over US$ 2 billion at the beginning of the year to just over US$1.2 billion by the end of June. In his memoirs, Diefenbaker accused the Kennedy administration of masterminding the crisis as a way of attacking an opponent of American foreign policy. A less conspiratorial view of the episode faulted Canadian authorities for mismanaging expectations about the exchange rate, thus encouraging capital flight.

Canada stuck with its 92.5 cent peg until 1970, after which the currency again floated. As Diefenbaker later noted bitterly and correctly, the U.S.-Canadian exchange rate subsequently fell to far lower levels under Liberal governments. Indeed, long after Diefenbaker's death, the loonie eventually reached a nadir of 65 U.S. cents by 2002. That it has since managed to rebound towards parity only reminds us again of the "Diefendollar" episode and of the sometimes-intimate connection between money and national identity.

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