

EARMARKED GOLD IN CANADA

1935-56

THE BANK OF CANADA'S EARLY YEARS, 1935-39: ENGLISH FRIENDS AND ENGLISH GOLD

Canada was a latecomer to the world of central banking. By the time the Bank of Canada opened its doors on March 11, 1935, virtually every other industrialized, Western country had a central bank regulating its monetary affairs. In Canada, it had taken the collapse of national credit in the Depression and recognition that the gold standard no longer automatically regulated trade to dislodge the long-standing opposition on the part of Canada's commercial banks to the notion of state-sponsored intervention in the credit and currency of the nation. A royal commission report in 1933 had urged Canadian politicians to establish a central bank. A central bank would "regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment...and generally promote the economic and financial welfare of the Dominion."¹ Even with the pressure of the Dirty Thirties at their backs, Canadian legislators exhibited their habitual caution by making the new Bank of Canada a *privately* owned institution, thereby distancing it from possible political interference. Only the election of a new Liberal government in Ottawa in late 1935 paved the way for public ownership of the fledgling bank in 1936.

The young bank was headed by a young governor. Thirty-eight-year-old Graham Towers, a political economics graduate of McGill University, was deflected from a promising career at the Royal Bank of Canada and given the governorship in the hope that his presence at the helm of the new central bank would both serve Ottawa's monetary ambitions and allay the fears of the commercial banks. For Towers, there was a good deal of learning on the job. The Bank's organization had first to be designed and implemented, relations established with the chartered banks and contacts made with foreign central banks. Instinctively, Towers turned to the Bank of England for guidance. The venerable Bank of England on Threadneedle Street in the heart of the City — London's financial district — was the linchpin of world-wide central banking. Its redoubtable governor, Montagu Norman (1871-1950), had presided over its affairs since 1920, having come to the Bank after years in the City. Norman had long taken a keen interest in the promotion of central banking in the Commonwealth, lending his ideas and practical advice in the 1920s to the creation of central banks in Australia, India and South Africa. Only New Zealand and Canada remained holdouts by the 1930s. Norman saw the addition of new members to the central bank club as a contribution to international monetary stability in the turbulent post-World War I period. As the Bank of England's historian, R.S. Sayers, has remarked, Norman "gave to Commonwealth affairs a measure of priority in the time he devoted to international affairs. He concerned himself not merely with the foundation of the new central banks but also, at greater expense to his time, to maintaining close contacts with them." In particular, the Bank of England was always ready "to help on specific problems as they arose" in the new Commonwealth central banks.²

1 *Report of the Royal Commission on Banking and Currency*, Ottawa, 1933, p.493.

2 R.S. Sayers, *The Bank of England 1891-1944*, Vol.II, London, 1976, p.513-4.

Towers was quick to avail himself of the senior bank's good offices. In November 1934 Norman agreed to lend J.A.C. Osborne, the Bank of England's secretary, to the Ottawa bank as its first deputy governor. Osborne had wide previous experience with the Federal Reserve Bank of New York and with European central banks. It was intended that he would apply this expertise to Canada's new central bank as Towers' first lieutenant. Osborne would stay until 1938, when he returned to become Norman's special adviser. Osborne later returned to Canada during the war as part of the British Supply Board and always maintained friendly, informal ties with the Canadian central bankers. "I have been happy to hear accounts of you from time to time," Norman's adviser, Harry Siepmann, wrote to Osborne in the spring of 1936, "which show that you like the Canadians almost as well as they like you...."³ Canada had other London financial friends who were close to the Bank of England governor. The Canadian-born expatriate financier Sir Edward Peacock, for instance, sat on the Bank of England board from 1929 to 1946 and frequently figured in Anglo-Canadian monetary relations, as well as acting as financial adviser to the Royal Family.

Towers soon became a frequent visitor to Threadneedle Street. Shortly after his designation as governor in 1934, he went to London to consult with Norman. The Bank of England's official history notes that "Towers was disappointed at the limits to Norman's capacity to advise" on technical matters, but despite this the correspondence between the two on matters of general banking interest "went far beyond common courtesies." Towers quickly became "the most highly regarded" Dominion central banker in London.⁴ (In 1943, it was even rumoured that John Maynard Keynes favoured Towers as a successor to Norman.⁵) In the summer of 1935, Norman visited North America and made a call on Towers in Ottawa — "to call & make a bow to you."⁶ While in Ottawa, Norman presented the Bank of Canada with a ceremonial inkstand, a gift that Towers told his directors the Canadians would reciprocate.⁷ On Norman's return to England, he confirmed his esteem for his new acolyte in the Dominion: "I like to think that someday we shall get a harvest of cooperation from these early seeds of contact between our Banks!"⁸ Throughout the late 1930s, whenever Towers returned from a visit to London, he presented his "impressions," often formed in Norman's office, of European monetary conditions to the Bank of Canada board.⁹

The intimacy of two central bank governors soon had practical outcomes for the young Canadian organization. In July 1935, Towers proudly told the executive committee of the board of directors that the Bank of England topped the list of 16 central banks that had opened drawing (i.e., cash

3 H.A.Siepmann to J.A.C. Osborne, April 24, 1936, Bank of Canada [hereafter BOC] file A18-17.

4 Sayers, *op.cit.*, p.515.

5 *Ibid.*, p.654.

6 M. Norman to G. Towers, December 22, 1934, BOC file GFT 75-9.

7 Minute Book of the Bank of Canada Board of Directors [hereafter MBBOC], full board, November 27, 1935.

8 *Ibid.*, September 3, 1935.

9 See, for instance, MBBOC full board October 23, 1936 and June 22, 1937.

deposit) accounts at the new central bank in Ottawa.¹⁰ Soon after, discussion between the two banks turned to the idea of Britain acquiring Canadian gold and accumulating it in the vault of the Bank of Canada. The practice was not entirely new; in World War I Britain had established its first overseas gold reserve in Ottawa to serve as security for its purchases of war material in the United States. As deputy governor of the Bank of England from 1918 to 1920, Montagu Norman was privy to the late stages of these arrangements.¹¹

Early in 1936, Britain again became interested in the idea of holding gold in Canada. In February, Towers informed Norman that the Bank of Canada was receiving "\$8-9 million in producer gold a month" and inquired whether the Bank of England might be interested in purchasing some of it to hold on reserve in Ottawa. Norman was immediately interested and by April was assuring Towers that the Bank of England welcomed the prospect of "bidding regularly for your weekly offerings of gold."¹² In a personal letter to Deputy Governor Osborne, Harry Siepmann wrote that the Bank of England found the gold purchase plan "welcome." It was "of obvious advantage to you" — finding buyers for Canadian gold — and appealed to London because it might provide gold at slightly below the New York price.¹³ Within days, Osborne noted in an internal memorandum that the Bank of Canada had "earmarked for the Bank of England gold valued at some \$9 million, and this may be increased from time to time before the account is closed. While it seems unlikely that the Bank of England would normally keep some gold here, such development is not impossible, especially in case of war."¹⁴ Thus began the practice of the Bank of England "earmarking" gold in the vaults of the Bank of Canada.

In some respects, the importance of gold in Canada's monetary arrangements had steadily faded in the early decades of the twentieth century. In 1914, the federal government had suspended its long-standing commitment to redeem its notes — the national currency — in gold. Since the 1850s, the Canadian banking system had been anchored by the gold standard — the assurance that gold was always available in exchange for circulating currency, thereby stabilizing the external value of Canada's currency. After the war, there was pressure for a return to the gold standard. Indeed it was restored briefly in the late 1920s, but the linkage of gold to the external value of national currency proved too difficult in the volatile postwar economy. One of the pressures behind the creation of a Canadian central bank was the need to restore some degree of national leverage over the external value of the dollar. The Bank of Canada was therefore empowered to deal in gold and foreign exchange on international markets in order to "offset" other pressures on the external value of the currency.

10 MBBOC, executive committee, July 5, 1935.

11 Sayers, *op.cit.*, pp.103-8.

12 Towers to Norman, February 6, 1936 and Norman to Towers, February 19 and April 29, 1936, BOC file A18-17.

13 Siepmann to Osborne, *op.cit.*, April 24, 1936.

14 J.A.C. Osborne, "Earmarked Gold," April 30, 1936, BOC file RD 1B-640.

WHAT IS FINE GOLD?

The public envisages central bank gold as piles of gold bars secreted in subterranean vaults. The gold bar, and occasional other forms of refined gold such as coins, minted bars and buttons, has evolved principally as a means of transporting and storing gold in relatively constant proportion. A gold bar usually weighs about 400 ounces or 11.4 kilograms, but most bullion markets — London, New York, Tokyo and Zurich — will accept bars ranging in weight from 350-430 ounces. Virtually all bars are, however, close to 400 ounces, so that an imperial ton (2,000 pounds or 32,000 ounces) contains about 80 bars of gold. For purposes of calculating the actual *worth* of gold, banks deal gold in terms of “fine ounces.”

A gold bar, however meticulously refined, will always contain some small impurities, so that the purchaser in fact receives very slightly less than 400 ounces of real gold. To alleviate this problem, gold bars are assayed and the actual purity is then stamped on the bar together with a registration number. For a bar today to be considered “good delivery” by the London Bullion Market Association, it must be “not less than 995 parts gold in 1000 parts.” All bars bear this “purity mark” plus the name of the melter/assayer. Thus, the actual worth in “fine gold” (i.e., free from dross or impurity) of any gold bar is obtained by multiplying the nominal weight of the bar by its purity. Gold trades are subsequently recorded in fine ounces, not bars. Bar counts are noted simply for purposes of storing and shipment. During the years covered by this study, the price of gold was fixed at US\$35 per ounce. A gold bar was therefore worth approximately US\$14,000 and a ton of gold approximately US\$1.1 million.

Gold featured in other aspects of the Bank of Canada's charter.¹⁵ The Bank was empowered to buy and sell gold. Any citizen tendering "the purchasing price in legal tender" could buy a bar of gold from the Bank, although this clause was almost immediately suspended. As the sole issuing-authority for the national currency, the Bank was to maintain a reserve of gold coin or bullion that was equivalent to not less than 25% of the value of its notes and deposit liabilities. To this end, plans for the Bank's head office on Ottawa's Wellington Street included provision for a subterranean vault built right into the Laurentian Shield. The act also stipulated that the same vault would be used to hold all gold coin and bullion transferred by Canada's chartered banks to the new central bank. Last, the Bank of Canada was given the power to open accounts in other central banks and in the Bank for International Settlements [BIS] or to act "as agent, depository or correspondent of such other central banks" or the BIS. Thus, the earmarked gold account was considered a normal and anticipated part of the Bank of Canada's mandate from the date of its inception.

Gold had other implications for the young Bank of Canada. In a decade in which the Depression drained the vitality out of the primary sectors of Canada's economy, gold production provided some positive news. Despite the disappearance of gold coinage, a kind of "gold mentality," as one author described it, gripped the developed economies. This mentality was rooted in the belief that gold alone could provide individuals and nations alike with a movable, valuable commodity that in times of economic hardship would retain its international value.¹⁶ Canada's ability to feed the world hunger for gold was also facilitated by a steady drop in the cost of gold production during the deflationary Depression and by the fact that in 1935 the United States hiked the price of gold from US\$20 an ounce to US\$35 an ounce. Throughout the 1930s, gold production therefore increased dramatically in Canada. Its dollar value, calculated on the fixed rate of US\$35 an ounce, rose from US\$39 million in 1928 to US\$178 million in 1939; world production in the same years grew from US\$406 million to US\$1.36 billion.¹⁷ By the decade's end, Canada was rivalling the United States as the third largest producer of gold in the world, trailing only South Africa and the Soviet Union. Most of Canada's production was exported as non-monetary gold, while a small proportion of it was purchased to add to the stock of monetary gold held by the Bank of Canada.

As world demand for gold grew in the Depression, Ottawa asserted its control over the trade. The Royal Canadian Mint became the principal refiner of Canadian gold into "good delivery" bars and the Department of Finance became the sole regulator of gold exports out of Canada. In 1932, "an act respecting the export of gold" was passed to stipulate that no gold could be exported out of Canada without a licence from the minister of finance. Only chartered banks might apply for such licences;

15 Bank of Canada Act, 24-25 George V, Chapter 43.

16 See BOC file RD 1A-640.

17 Ibid.

WHAT IS EARMARKED GOLD?

Earmarking is a courtesy function performed by one central bank for another central bank. It entails the delivery of gold owned by one central bank into the safekeeping of another central bank. The Bank of England's historian, R.S. Sayers, has suggested that the modern practice of earmarking began in the 1920s, when England was temporarily off the gold standard and the Bank of England decided to allow its central bank clients to store gold in its vaults to allow them to use such gold as security on advances made to them by the Bank.¹ Earmarking soon acquired other purposes: providing off-shore cover for commercial transactions, providing a holding facility for purchases of newly minted gold and in times of international tension allowing the dispersing of national gold to foreign safe havens. Once a sufficient number of central banks had established earmark accounts abroad, the possibility existed that they could simply swap amounts of earmarked gold by legal transfer on paper rather than by actual physical exchange.

Host banks did not pay interest on earmark deposits, usually only levying a small handling charge to cover the cost of physically handling the gold on its arrival and departure from the host bank. The host bank assumed no legal control over the earmarked gold in its keeping. The arrangement was much like that enjoyed by a commercial bank client renting a safety deposit box. On instruction by the client the bank was obliged to open the box and deliver the contents into the client's hands without question.

When the Bank of Canada opened an earmarked gold account of its own at the Federal Reserve Bank of New York in 1935, the deputy governor of the Fed described the earmark function with succinctness: "We will earmark gold which is your property and will hold it subject solely to your instructions, giving to any such gold which is left in our custody the same care which we give to our own similar property but beyond that assuming no responsibility."² A year later, Harry Siepmann of the Bank of England put it more simply in a letter to the deputy governor of the Bank of Canada: "Earmarking is a routine activity of any full grown Central Bank and one of the normal forms of co-operation for mutual advantage."³

1 R.S. Sayers, *The Bank of England 1891-1944*, vol. I, London, 1976.

2 J.E. Crane to Towers, January 26, 1935, BOC file A19-12A.

3 H.A. Siepmann to J.A.C. Osborne, July 31, 1936, BOC file A18-17.

in 1935 the act was amended to entitle the new Bank of Canada to apply for such licences.¹⁸ The act was designed to assure the Canadian government that it would have a secure supply of foreign exchange from gold sales with which to service Canada's large foreign debt. In 1937, another federal act prohibited the use of "gold clauses" in financial arrangements, thereby ending the right of a creditor to claim settlement of a claim in gold. Such obligations were now to be settled only in the legal tender of the country. Thus, gold production was brought under tight federal control and as such was used as a powerful point of leverage on national economic performance in a decade of generally dismal economic times.

Thus, the prospect in 1936 of the Bank of England opening an earmark account at the Bank of Canada was doubly tantalizing. Not only would it bring the kudos of the world's senior central bank bestowing an account on the world's newest central bank, but it also offered the prospect of inducing the Bank of England to use the account as an export conduit for Canadian gold minted at the Royal Canadian Mint, to be bought by the British and stored in the vault of the Bank of Canada. The trick would be to partially wean Britain from its dependence on South African gold. As an inducement to this end, Ottawa offered to cover the shipping expenses to New York and London on gold bought at the Royal Canadian Mint, thus making it marginally cheaper than American and South African gold. Furthermore, in order to allay any earmark client's fear that their Canadian-held gold might not be immediately exportable, the Bank of Canada obtained a "general undertaking" from the minister of finance that an export licence would always be granted when the earmark client wanted to remove its gold from Canada.¹⁹

These arrangements proved sufficiently attractive that the Bank of England began buying Canadian gold and placing it on earmark in Ottawa in the spring of 1936. At first, the British thought of the account as a short-term commitment, one that gave them a small bargain in the price of new gold and also helped them to capitalize on shifts in value between the pound and North American currencies. The intention was to ship English gold held in Ottawa to the Federal Reserve Bank of New York, where it would be applied to supporting a large credit that the Bank of England had given the Bank of France. Early on in this pattern of purchases, Montagu Norman told Towers that the arrangement "was working quite satisfactorily and I have no wish to set any particular limits on the amount for the present."²⁰ Within the Bank of Canada, a regularized earmarking procedure was developed whereby the Bank of England's gold purchases were delivered from the mint to the Currency Division, where they were duly registered in the Bank's gold ledgers. "I have this day received from the Royal Canadian Mint 109 gold bars Nos. 2735 to 2843, of the gross weight of 44,236.375 ounces, containing 44,093.461 fine ounces," the Bank's secretary, Donald Gordon, was

18 An Act respecting the Export of Gold, 22-23 George V, Chapter 33 and An Act to amend The Gold Export Act, 25-26 George V, Chapter 21.

19 J.A.C. Osborne to W.C. Clark, deputy minister of finance, March 5, 1936 and Clark to Osborne, March 11, 1936, BOC file A18-17. Whenever the Finance Department issued such assurances, it always included one proviso: "If at some future time Parliament should desire to change the present policy in regard to export licences, you will be informed in ample time to make satisfactory arrangements for the export of the gold which you may then hold earmarked for the Bank of England."

20 Norman to Towers, February 19 and March 30, 1936, BOC file A18-17.

typically informed by the Currency Division in May 1936. "This gold is being held in safekeeping for the Bank of England."²¹

The Bank of Canada clearly saw the opening of the British earmark account as serving both its own ends and those of Canada's gold producers. Senior managers at the Bank did everything they could to preserve the account. Towers, for instance, assured Norman that the Canadian government was "committed to settle with mines on the basis of [the] best market price obtainable converted at current rate of exchange...." for the Bank of England.²² In 1937, the mint in Ottawa even agreed to change the shape of the gold bars it produced to conform to "those favoured on the London market."²³ At the same time, Deputy Governor Osborne promised that the English earmark account would be cloaked in secrecy and that the Bank of Canada would not publish the names of its earmark clients and "should treat with silent contempt the suggestion that the Bank of England might be one of them." Only the Canadian government would be told *confidentially* if the Bank of England had a substantial amount of gold on earmark in Canada.²⁴

Given these auspices, it was not surprising that the Bank of England continued to expand its Canadian earmark account. Canada was a safe and convenient place to earmark gold. Safe because Ottawa and London had established a close and friendly central banking relationship. Convenient because the Royal Canadian Mint supplied gold at an attractive price and also because the Bank of Canada was, relatively speaking, on the doorstep of the Federal Reserve Bank of New York, where the Bank of England had frequent business to transact. Late in 1936, the Bank of England therefore asked Ottawa to "continue to give us the opportunity to bid for newly produced Canadian gold as it comes forward" and announced that London would now pay its own shipping charges on the purchases.²⁵ By the end of 1936, the Bank of England had 3,304 bars, or 1,335,588 fine ounces, of gold on earmark in Ottawa. A year later, the total reached 4,748 bars or 1,915,435 fine ounces.²⁶ The Bank of England's early satisfaction with its Canadian earmark account would in the near future act to Canada's advantage in other ways, as the London bank began to refer would-be European earmarkers to the Canadian bank for their needs. As the clouds of war began to gather over Europe later in the decade, the Bank of England was predisposed to point anxious European bankers in Ottawa's direction. The phrase "whenever we were asked to introduce one of our Continental friends to the Bank of Canada" regularly appeared in London's correspondence with Ottawa.²⁷

21 Memo for Mr.Gordon, May 7, 1936 from the Chief of the Currency Division, BOC file 18-17-1.

22 Cable, Towers to Norman, April 29, 1936, BOC file A19-17.

23 MBBOC, Executive Committee March 19, 1937.

24 Osborne to Siepmann, June 2, 1936, *ibid.*

25 Siepmann to Towers, November 20, 1936, *ibid.*

26 All statistics relating to earmark accounts at the Bank of Canada are drawn from the gold record reconstructions produced by the Gold History Project, Bank of Canada, 1997.

27 See, for instance, Norman to Towers, April 14, 1939, BOC file A18-17.

In the short term, however, only one other prewar earmark account materialized. The Bank for International Settlements (BIS) was a Swiss-based legacy of World War I. It had been established in 1931 in Basle to oversee the reparation payments agreed to by Germany after the war. All of the European central banks contributed to its establishment and were represented on its board. In effect, the BIS became the central bankers' central bank. Although Germany never fulfilled all its reparations commitments, the BIS remained active in interbank and various commercial transactions. Since it had no central bank in 1930, Canada was not a signatory to the Hague Agreement that established the BIS, but the BIS nonetheless kept a money account at the Bank of Montreal to facilitate its Canadian operations. When the Bank of Canada opened in 1935, the BIS requested the transfer of its Bank of Montreal account to the new Canadian central bank.²⁸ The BIS's money was converted into 12,819 fine ounces of earmarked gold by the Bank of Canada and in November was shipped to New York. A year later, the BIS arranged for the mint in Ottawa to melt down U.S. gold coins obtained in San Salvador into gold bars, which were then earmarked — 16,908 fine ounces — at the Bank of Canada. After this deposit, the BIS earmark account in Ottawa remained inactive until after the war.

Thus, by 1939 the Bank of Canada had established earmark accounts with two prestigious European counterparts in the world of banking. The small BIS account with only 42 bars of gold was dwarfed in importance and size by the thousands of bars of British gold that sat in the Bank of Canada vaults. These early earmark accounts in Ottawa reflected straightforward, accepted banking practice. They were intruded upon only by the federal government's monopoly right over gold exports from Canada: here the minister of finance had given assurance that an export licence would not be denied an earmark account-holder. To this uncomplicated arrangement, each party brought its own self-interest. Earmarking flattered the Bank of Canada's desire to join the club of international central banking and Ottawa's strategy of selling Canadian-mined gold onto world markets. From the European perspective, an earmark account in Ottawa offered access to attractively priced Canadian gold and the opportunity of storing it in close proximity to the Federal Reserve Bank of New York. As the first tremors of war were felt in 1938, other factors began to intrude into the business of earmarking gold in Canada. What had initially been simple banking was about to acquire a geopolitical cast.

EARMARKING AND WAR: 1938-40

The Bank of England's earmark account in Ottawa saw little activity through 1937; the correspondence file for that year is thin and routine. The spring of 1938 brought it alive. Austria fell under Germany's shadow. The Sudetenland followed. The aggressive German impulse that built to the Munich crisis that September may have been temporarily appeased on the diplomatic front by the blandishments of Britain's prime minister, but it set Britain's bankers wondering about the potential monetary safety of the realm. On March 31, 1938, Graham Towers received a "very secret and personal" cable from Harry Siepmann, special adviser to Montagu Norman. "The Governor asks me to put to you the following," Siepmann began, "please consider and reply by cable on Monday if possible what would be the attitude of the Bank of Canada if the Bank of England were to propose to accumulate gold in Ottawa by purchase, transfer and shipment from other centres, up to an amount

²⁸ Manager & Assistant General Manager, BIS, to Bank of Canada, March 9, 1935, BOC file A1-5A.

of \$250,000,000 or more....” Siepmann also offered to let the Canadian mint melt down gold coins held by Britain in Ottawa and add them to this deposit.²⁹ Norman was clearly shifting Britain's attitude to the earmarking of gold in Ottawa. The account was no longer to be just a means of acquiring Canadian gold, but was now to become a line of national monetary defence — an offshore store of national gold beyond the reach of potential European belligerents. Gold was now to be *shipped* to Ottawa, not just bought there.

It is indicative of the empathy between the two central banks that Towers replied on schedule to Siepmann on April 2. Before doing so, he telephoned Canada's minister of finance, Charles Dunning, to gain assurance that any addition to the Bank of England's earmark account in Ottawa would automatically be given an export licence. Dunning agreed. Towers therefore cabled Siepmann that his bank was “willing to receive gold in amount of two hundred and fifty million dollars or more.” He did however warn London that “substantial imports of gold over short period of time would no doubt attract attention.” This was not an “objection,” he added, simply something to consider. Towers also pointed out that until the Bank of Canada's new Ottawa headquarters building was opened, there would be insufficient space to store such gold. The new vault would be adequate. Towers then assured London that the matter had been discussed “very confidentially” with Finance Minister Dunning.³⁰ “As a parting note,” he again cabled London two days later, “let me say we are most willing to be of assistance in any way we can.”³¹

In early May 1938, the Bank of England began moving gold to Ottawa. Governor Norman had forewarned his fellow governor Towers that his plan was to shift gold earmarked for the Bank of England at the Banque de France in Paris to Ottawa by shipping it to the Channel port of Cherbourg, loading it on board Canadian National steamships and delivering it to Quebec or Montreal. He agreed that such large movements of gold would attract “some publicity,” but that his bank would do its “best not to attract undue attention and comment.” Since direct shipment of gold out of London might excite alarm in England, Norman would try to avoid this option. Some gold, he cautioned Ottawa, “will reach you by devious and unexpected ways.” In all this, he was “most grateful to you” and the minister of finance.³² On May 9, the first shipment of British gold arrived in Canada. The Bank of Canada's new vault was ready just in time to receive it. Specially chartered trains brought the gold to Ottawa and the Bank hired some Mounties to oversee its unloading. Unfortunately, Towers reported to London, a “stray journalist” had seen the train arrive in Ottawa. Telephone calls from the press followed. The “press loves mystery,” Osborne complained to Siepmann when garbled accounts of the gold's purpose began appearing in the press.³³

Throughout the summer of 1938 the gold kept coming, until in October Deputy Governor Donald

29 Siepmann to Towers, March 31, 1938, BOC file A18-17.

30 Towers to Siepmann, April 2, 1938 and Towers to Dunning, April 4, 1938, *ibid.*

31 Towers to Siepmann, April 4, 1938, *ibid.*

32 Norman to Towers, April 19, 1939, *ibid.*

33 Osborne to Siepmann, May 11, 1938, *ibid.*

Gordon reported to London that the last two shipments had arrived and been stored “without a single word of press comment.”³⁴ Throughout this accumulation, the Bank of England continued to buy gold at the mint and also began to use its Ottawa earmark as a means of satisfying its gold needs in New York. At the year's end, the Bank of England had 10,219 bars of gold — 4,087,731 fine ounces — worth \$143,069,592³⁵ safely ensconced under Wellington Street. The amount rivalled the gold held by the Bank of Canada on its own account in the vault. Towers proudly reported the growth of the Bank's foreign gold on earmark to the board of directors, almost as if the Bank were coming of age.³⁶ The spring of 1939 brought no easing of tensions in Europe and served to broaden the anxiety of its central bankers. The idea of dispersing national gold out of harm's way began to find appeal in other European financial centres. On March 22, Towers talked by telephone with Bank of England senior official G.F. Bolton, who told him that the Banque Nationale de Belgique had inquired about the safekeeping of gold in Canada. The Belgians were thinking of placing \$25-\$50 million in gold in Ottawa. Towers noted in a memo that he immediately said “yes” and promised to let London know what fees would be involved in such safekeeping.³⁷ Within two weeks, Bolton was back in touch with Towers with news that additional inquiries about Ottawa safekeeping had been received from the Swiss central bank — the Banque Nationale Suisse — and the Banque de France. The Banque de France had “definitely made up its mind” to send £30 million in gold to Canada and preparations were under way to make the first shipment in mid-April.³⁸ Although all three of these banks — the French, Belgian and Swiss — had maintained regular financial relations (e.g., drawing accounts) with the Bank of Canada since soon after it had opened in 1935, it is interesting to note that all these approaches concerning safekeeping facilities in Ottawa were made *through* the Bank of England.³⁹ For his part, Governor Towers devoted his thoughts to ensuring that the Bank of Canada would have sufficient storage space for more foreign gold and how much to charge for such services. On a visit to New York and Washington that same month, Towers made enquiries of the Americans about proper fees and concluded he had no desire to “make money out of the situation” and would simply try to recover the actual cost of handling foreign gold.⁴⁰

Amid these inquiries, the British reinitiated their own transshipment of gold to Ottawa. In late April the British battleship *Repulse* slipped quietly into the port of Quebec and unloaded gold bullion onto a train for Ottawa. Back in Ottawa, plans were drawn up for special shelving to be added to the new vault. When one young Bank employee first glimpsed the Bank's new vault in 1938, he had thought it was “as cavernous as Fort Knox.” By mid-1939, he remembered that gold was by necessity being

34 Gordon to Siepmann, October 20, 1938, *ibid.*

35 All dollar figures cited in this report are in Canadian dollars, unless otherwise indicated

36 See, for instance, MBBOC, full board May 30, 1938 and June 26, 1939, *ibid.*

37 Memo by G.F. Towers, March 22, 1939, BOC file 3-1.

38 Bolton to Osborne, April 13, 1939, A6-3/1.

39 See, for instance, the opening of a 10,000 Swiss-franc Banque Nationale Suisse cash account reported in MBBOC, December 20, 1935.

40 Towers memo #251, April 18, 1939, Towers Papers, BOC Archives.

stacked on the floor to save space. Crawl spaces were left between the stacks to enable the Bank's auditors to verify that the stacks were all gold.⁴¹ Throughout the rest of 1939, the British earmark account in Ottawa became the centre of intense activity. Gold bars and coin continued to arrive from abroad as well as gold from England itself, delivered by warship to Halifax, Vancouver and Quebec. From this growing hoard, some gold was despatched to New York where England was already using it to support its wartime spending in the United States. British gold reserves in Ottawa peaked at \$346 million in early September and then slipped back to end the year at \$251 million.⁴²

Nothing came of the Swiss and Belgian inquiries about safekeeping in 1939, but the French acted on their declared intention, thereby becoming the Bank of Canada's third foreign earmark client. Without even waiting for complete Canadian approval, France began shipping its first consignment of gold — 403,516 fine ounces — across the Atlantic in April. Towers hurriedly confirmed with the deputy minister of finance, W.C. Clark, that the finance minister would extend the right of an export licence to the French when they desired to remove their gold from Canada.⁴³ On May 1, 1939, Towers therefore wrote to the governor of the Banque de France to confirm the opening of the account, citing the stock description of the earmark arrangement — “We will earmark and hold gold for your account, providing the same facilities for the custody of such gold as we provide for the custody of our own similar property, but beyond that assuming no responsibility.”⁴⁴ Given this assurance, the Banque de France built up its earmark account in Canada with astonishing rapidity. By the end of 1939, it rivalled the Bank of England's account in Ottawa with 17,531 bars of gold — 7,088,094 fine ounces — worth approximately \$250 million. Such heavy volume movements of gold attracted press attention, but the Bank of Canada did its best to appear shy in the face of such interest. Towers would only tell the *Montreal Gazette* that “quite a bit” of gold had come to Ottawa. The *Wall Street Journal* was not as easily put off and wrote that Canada had more than doubled its holding of earmarked gold in 1939 in “the largest earmarking operations conducted in Canada.”⁴⁵

Other French gold was shipped directly from dockside in Canada to the Federal Reserve Bank of New York to service France's early war contracts in the United States, thereby joining British shipments of gold from its Ottawa earmark to settle accounts in New York. Just after war broke out in September, Congress in Washington had convened in special session to modify America's usually stringent neutrality law to allow Allied powers the right of purchasing war matériel in the United States on a “cash and carry” basis — pay on the spot and take your purchases away in your own vessel. Such transactions required abundant amounts of U.S. dollars or gold convertible into such hard cash. Ottawa's nearby store of British and French gold, which could be safely shipped to the Federal Reserve free of attack from Axis submarines, now assumed an added advantage.

41 Interview with Forbes Hirsch, September 4, 1997. See: John Ibbitson, “Bullion Boy: How a Junior Accountant Herded a Wartime Armada of Gold,” *The Ottawa Citizen*, December 4, 1995.

42 “Gold Held in Safekeeping for the Bank of England, 1938-Aug. 1941,” BOC file A18-17-9.

43 Towers to Clark, April 15, 1939 and Clark to Towers, April 15, 1939, BOC file SEC/OS 91-19.

44 Towers to Governor, Banque de France, May 1, 1939, BOC file A6-3.

45 See: the *Toronto Star*, May 15, 1939, *The Wall Street Journal*, July 5, 1939 and the *Montreal Gazette*, August 22, 1939.

The coming of war thus dramatically expanded the volume of the Bank of Canada's earmarked gold business. It added a new client — France — and, thanks to the Bank of England, put the idea of earmarking in Canada in the minds of other European central banks. But this increase in business did not oblige the Bank to forsake the original definition of its responsibility as host bank to an earmark account. It assumed “no responsibility” beyond a simple custodial one. Through the “phony war” of late 1939 and early 1940 this definition held. But there were already signs that difficult decisions lay ahead. In December 1939, for instance, Towers received a letter from the head of Sweden's central bank, the Sveriges Riksbank, asking about the prospects of opening a U.S. dollar account in Canada. In a “personal and strictly confidential” reply, Deputy Governor Donald Gordon assured the Swedish bank governor that if Sweden were invaded and taken over by another power that the Bank of Canada “would do our utmost to protect your interests and that any order to transfer, which we had reason to believe had been given under duress, would be ignored as a matter of ordinary banking procedure.” It was hard, Gordon added, to answer such hypothetical questions “categorically.”⁴⁶

The German *blitzkrieg* of the spring of 1940 would bring new earmark clients and the first pressure on Ottawa to adapt the definition of earmarking to the circumstances of war. What had been hypothetical soon became matters of hard choice.

EARMARKING UNDER PRESSURE: 1940-41

At the beginning of 1940, the Bank of Canada had three foreign earmark accounts on its books. By the end of the same year, there were eleven accounts, ranging from the burgeoning Bank of England account with an all-time peak of 60,575 bars at the end of the year, to several accounts — for the Bank of Bolivia, the Banque Melli Iran and the Bank of London and South America (explained in greater detail later) — that were open but as yet contained no gold. In 1940, an incredible inflow of 134,798 bars of foreign gold arrived at the Bank of Canada for safekeeping. This proliferation of accounts was driven by the German army's incursion into the countries of the north European plain and Scandinavia. Countries once free became occupied and their governments desperately sought ways to protect their central bank gold from predatory hands. They were only partially successful; large amounts of French, Belgian and Dutch gold fell into Axis hands and were quickly consumed by the German war machine. Here was the origin of the looted gold that Germany masterfully laundered through neutral countries and which would prove so difficult to trace after the war. Gold that escaped such looting did so in many ways. In many cases, panicky European central bankers were pointed in Ottawa's direction by the Bank of England. The common urge behind this flight of capital was to find a safe haven where the gold was beyond German reach and where it would be at the service of a government in exile. From the outset, this rush of gold across the Atlantic would place the Bank of Canada, and other wartime decision-makers in Ottawa, in the awkward position of redefining the Bank's responsibilities to holders of earmark accounts.

The first and thorniest problem was France. As the French government disintegrated in the face of the German assault of the late spring of 1940, the Banque de France desperately sought to remove its gold from its homeland. Some was captured, some was already abroad in Ottawa and other

46 Donald Gordon to Ivar Rooth, Sveriges Riksbank, January 3, 1940, BOC file A16-2.

portions were put aboard warships and ended up in Dakar, West Africa. France had become an "occupied" country in Allied eyes. Back in France, the puppet Vichy government tried to assert a claim as the legitimate owner of France's central bank gold held abroad. In mid-July, Canada's senior foreign policy official, O.D. Skelton, the undersecretary of state for external affairs, was informed by the secretary of state for Dominion affairs in London that Britain was "blocking the assets of the Bank of France and should be glad if the Canadian Government would do likewise."⁴⁷ On July 31, Canada obliged Britain by passing Privy Council Order #3515 which "in consequence of the invasion of France by enemy forces" stipulated that all French assets domiciled in or controlled from Canada should be placed under the control of the custodian of enemy property, an office established in 1939 to "freeze" assets in Canada that might be employed to the enemy's advantage. By definition, this included France's earmarked gold and U.S. dollar account in Ottawa. But it quickly became apparent that there was no unanimity of opinion on the issue. A day later Finance Minister J.L. Ilesley issued an order that exempted the French gold from control of the custodian and instructed the governor of the Bank of Canada to act as his "agent for the control of these assets." Towers was not, however, to allow any disposition of the French gold and foreign currency without the finance minister's permission.⁴⁸ For the first time, the earmarking of gold had been coloured by political considerations.

From August to October of 1940, Ottawa's wartime policy-makers wrestled with the question of France's earmarked gold. On the one hand, there was persistent pressure from London to free the French gold so that it could be put to the use of the general Allied cause, thereby ultimately expediting France's return to freedom. In particular, France's cash and gold in Ottawa might be applied to "cash and carry" purchases of war matériel in the United States, where the French government had made contracts before its fall. Such contracts could still be honoured with French assets in Ottawa. To make this case, the British sent Sir Frederick Phillips, a senior Treasury official, to Ottawa to argue the case for freeing the French gold from wartime freezing. Late in August, British Prime Minister Churchill even cabled Ottawa, urging it to apply French resources in Canada to Britain's immediate wartime fiscal needs. Contrary to this view was the belief that Canada had a fiduciary responsibility to the people of France and that wartime expediency should not override the inevitable postwar obligation to restore France's gold to its rightful owners.

At the Bank of Canada, Towers saw the debate over the French gold as a debate "purely" between two governments and that his role was to act "as a messenger." He was conscious that Prime Minister King and his principal foreign policy aide, O.D. Skelton, had long held an autonomous line in their relations with Britain. Canada must distance itself from Britain's international agenda; it must cease acting out of colonial obedience. King told Sir Frederick Phillips that the French gold question "should not be opened up at this time" and then in typical King fashion he bought time by telling Churchill in early September that his War Cabinet had given the issue a "most careful examination" and that a subcommittee would study the issue.⁴⁹ It can also plausibly be suggested that King's hard-

47 O.D. Skelton to Chairman of the Foreign Exchange Control Board, July 14, 1940, BOC file A6-4.

48 J.L. Ilesley to Towers, August 1, 1940, BOC file SEC/OS 91-19.

49 Churchill to W.L.M. King, August 25, 1940 and King to Churchill, September 3, 1940, BOC, Towers Papers, GFT 75-12.

line position was moulded by his sensitivity to Quebec's possible reaction to any perceived move to liquidate French assets in Canada. King's Liberal Party was crucially dependent on Quebec support and any precipitous move on French currency or gold in Canada might easily be presented by King's political foes in Quebec as caving in to rabid, pro-British forces in English Canada. Skelton reinforced the prime minister's political instincts with arguments based on what he considered the moral obligations of a banker. "I consider that a trustee who substitutes an IOU for gold is not living up to the terms of his trusteeship, explicit or implicit," he told Towers in mid-September.⁵⁰ Only in absolute dire circumstances could French gold be employed by the Allies.

For his part, Towers (carefully noting that he was speaking as "an individual citizen") begged to differ with his prime minister. "I feel strongly," he wrote in early September, "that there is nothing in the slightest degree immoral in making use of such assets....If at the time of the debacle in France there had been four thousand fighting planes owned by the French in Canada, would anyone suggest that these planes should have been packed away for the duration of the war?"⁵¹ Planes, Skelton responded, were not the same thing as gold. Gold carried a "sacred" value that made a depositor of gold "consider he has been gypped if he isn't given back gold or some instrument as certain to be exchangeable for equal value" when hostilities ended.⁵²

And so the debate went through the fall of 1940, until on November 16 the prime minister had his way. All French gold and cash balances were to be put under the authority of the custodian of enemy property and the Bank of Canada was instructed by Finance Minister Ilsley to transfer control of French assets to the custodian.⁵³ Mackenzie King had prepared the way for the decision by telling Churchill that it was best to maintain the status quo and implied that if the Allies were ever in dire need of the French assets the custodian could be directed to deliver them into Allied hands.⁵⁴ This threshold was never crossed in Ottawa's mind and for most of the war France's earmarked gold — 10,581 bars of it — remained frozen in the vaults of the Bank of Canada until the fall of 1944, when control of the gold was duly returned to the Banque de France once it had reestablished itself in Paris. Canada had thus altered the conditions under which it was prepared to provide safe haven for foreign gold; it had weighed its own, admittedly political, needs against the needs of its British allies and had decided to be guided by domestic interests. The decision was taken after vigorous discussion between the prime minister's office, the departments of Finance, External Affairs and Justice and the Bank of Canada. Britain had been listened to and, judging by correspondence around the November 1940 decision, the British were prepared to agree that action on the French account could "wisely be deferred."

50 Memo by O.D.Skelton in response to G.F. Towers, September 14, 1940, *ibid.*

51 Notes on Dr. Skelton's Memorandum of September 9, and discussion which took place on that date, September 10, 1940, *ibid.*

52 Memo by O.D. Skelton in response to GFT, September 14, 1940, *ibid.*

53 Ilsley to Towers, November 16, 1940, BOC file SEC/OS 91-19.

54 W.L.M. King to Churchill, October 25, 1940, *ibid.*

Other fugitive gold from Europe found a quicker and more open reception in Ottawa in the summer of 1940. While the drama of the Banque de France situation unfolded, the Bank of England headed three other European central banks in Ottawa's direction as they sought to protect their nations' monetary wealth from the German onslaught. First came the Norwegians, whose country had fallen under occupation in April. On June 10, the Norwegian minister in London cabled the Bank of Canada telling it that he had instructed the Bank of England to forward bullion worth £2.5 million to Ottawa for safekeeping and setting out the names of those who would have signing authority over the account.⁵⁵ Almost immediately, the gold was shipped. The Bank of Canada was initially confused. "We are uncertain as to whether any of the instructions we have received can be considered as instructions emanating from authorized officials of the Royal Norwegian Government," the Bank's secretary queried the Department of External Affairs, "...we should like your advice."⁵⁶ By mid-August, the Bank had 951 boxes of Norwegian gold in its vault and still no clear idea of who controlled it. Governor Towers wrote to Finance Minister Ilsley to inquire whether the gold should be delivered to the control of the custodian of enemy property or whether, if Canada recognized the legitimacy of the Norwegian government in exile in London, it was still under Norwegian control. On August 19, Ilsley confirmed that the Bank should oblige the Norwegian government in London and that the gold was therefore "freely disposable" and beyond the reach of the custodian.⁵⁷ "This appears to settle the question satisfactorily," a Bank official wrote to Norman Robertson at External Affairs.⁵⁸ Later in the fall, the governor of the Bank of Norway came to Ottawa to inspect the 589,834 fine ounces of gold earmarked for it in the Bank of Canada.⁵⁹ By the end of 1940, the Norwegian government had 1,335 bars of gold — 1,098,263 fine ounces — on earmark in Ottawa.

July 1940 brought two more European central bank clients displaced by war. On July 8, the deputy governor of the Bank of England cabled to request that 59,524 fine ounces be transferred out of its account and credited to Bank Polski, the Polish central bank. More gold arrived by ship from England in early August, giving Bank Polski 325,006 fine ounces in safekeeping in Ottawa.⁶⁰ Bank Polski's Ottawa earmark had convoluted origins. In June, it had arranged with the Banque de France to tranship much of its central gold reserve to Canada. Unfortunately, the French diverted the Polish gold to Dakar, West Africa, where it became mired in a wartime diplomatic tug-of-war. England then applied pressure for French gold now blocked in Ottawa to be released into Polish ownership. In the face of these demands, Canada took a passive attitude. "The attitude taken by the United Kingdom Government is understandable," Towers told O.D. Skelton, "and we have no comments to make."

55 Erik Colban to Bank of Canada, BOC file 515-11-5.

56 D.G. Marble to N.A. Robertson, July 6, 1940, *ibid.*

57 Towers to Ilsley, August 15, 1940 and Ilsley to Towers, August 19, 1940, BOC file SEC/OS 91-19.

58 D.B. Mansur to Robertson, August 24, 1940, *ibid.*

59 At times, there are slight discrepancies between gold figures cited in correspondence and the actual final transaction record. Client banks would instruct Ottawa to take delivery or sell "approximate" amounts of gold and the final book entry would reflect precise fine ounces.

60 All July 1940 Bank Polski, Bank of Canada and Bank of England in BOC file A13-2.

The Bank of England then appears to have begun transferring gold from its account to the Polish account in Ottawa. On August 15, Governor Towers wrote to Finance Minister Ilsley telling him that Bank Polski had been a client since before the war and that on July 5 “we were advised by the Bank Polski that the President and managers of the Bank had come to London and were occupying space in the Bank of England.” The Bank of Canada was therefore “taking the view that they are for the time being domiciled in London, England, and that the assets which they have with us are freely disposable and do not come within the control of the Enemy Property Custodian.” Ilsley agreed.⁶¹

Unlike the inactive Norwegian account, the Polski Bank account took on a more active wartime role. Late in September 1940, Deputy Governor Donald Gordon met with the Polish consul general in Canada and the Polish minister plenipotentiary in England. The Poles asked to open a second account at the Bank of Canada to serve the needs of the Polish government in exile. The Poles indicated that the account would “probably remain inactive during the course of the war and that the fund was being held as far as possible for the rehabilitation of Poland after the war.” And then to clinch their Allied *bona fides*, the Poles told Gordon that “in the event of need they would throw in the gold to the British cause.” The Bank agreed, and 71,855 fine ounces of gold were transferred from Bank Polski to an account of the Polish government. Contrary to earlier professions, the Poles used their Ottawa gold frequently during the war, principally to help finance the activities of the Polish military mission in Canada by selling gold back to the Bank of England.⁶²

Another government in exile made its wish to earmark gold in Canada evident in July 1940. Again, the Bank of England made the introductions. When the German attack came in the spring, the Netherlands government had scrambled to find a safe haven for its central bank gold. It was only partially successful. Some gold was captured outright and then shipped to Germany. Other gold fell into Axis hands when the ship carrying it was stranded on a sand bar in the Channel. The rest soon found itself in the vaults of the Bank of England. The Dutch government, however, remained anxious and in July prevailed on the British Treasury to inquire in Ottawa whether an earmark account might be opened on the other side of the Atlantic.⁶³ Towers instinctively cabled for Montagu Norman's reaction to the proposal. Norman replied that “after weighing all the factors that Netherlands gold in London should be at free disposal of the Netherlands Government.”⁶⁴ Towers responded that “we see no difficulties” and proceeded to obtain the now-usual commitment from Finance Minister Ilsley that the Netherlands gold would be considered “freely disposable” and beyond the reach of the custodian of enemy property if a request was made to remove it from Canada. By the end of August, the Netherlands government had rapidly built up its new earmark account in Ottawa to 5,732 bars — 2,812,124 fine ounces. This would prove to be the high-water mark for Dutch gold in Canada, as throughout the war the Netherlands government drew the account down for various purposes, including the despatch of some Dutch gold to Australia for safekeeping

61 Towers to Ilsley, August 15, 1940 and Ilsley to Towers, August 19, 1940, BOC files SEC/OS 91-19 and A13-2.

62 “Gold Held for Bank Polski, 1940-45,” dated June 27, 1946, BOC file A13-2.

63 The request came from “Phillips,” presumably Sir Frederick Phillips, who had visited the Bank of Canada that summer (MNBOC, full board, September 9, 1940). Towers to B.G. Catterns, July 16, 1940, BOC file A25-1.

64 Secret cable Norman to Towers, July 18, 1940, *ibid.*

in 1943. Nonetheless, the Netherlands in turn brought earmark accounts to Ottawa from various colonial banks affiliated with it. In September 1942, the Bank of Dutch Guiana (*De Surinaamsche*) opened a gold account at the Bank of Canada. A year later the Royal *De Javaasche* Bank of the Netherlands Indies followed suit. Finally, in 1945 *De Curacaosche* Bank in the Dutch West Indies came to Ottawa. All three of these accounts were relatively small compared with the main Netherlands account and were largely intended to facilitate wartime commercial interaction between the Netherlands and its dependencies.⁶⁵

The constellation of small colonial accounts around the main Netherlands account was paralleled by two accounts set up at the request of the Bank of England. In October 1940, the Bank of Canada opened gold accounts for the central bank of Bolivia and the *Banque Melli* Iran in Tehran. Here, too, the purpose was largely commercial — to provide payment for British purchases of Bolivian tin and Iranian oil.⁶⁶ Neither account was active during the war, with the Bolivian account finally coming alive only in 1945. A 1940 account opened for the Bank of London and South America had a similarly British-oriented commercial motivation. In 1945, the Bank of Mexico opened a gold safekeeping account in Ottawa.⁶⁷ A last commercially driven account appeared in the summer of 1943 when the *Banque Nationale de Belgique*, on behalf of the Belgian government in exile, opened an earmark account in Ottawa to provide commercial cover on purchases of Canadian wheat they had made and for which they had no assurance from Washington that U.S. dollars would be released to make payment.⁶⁸

The Bank of Canada thus found itself at the centre of a wartime proliferation of earmarked gold accounts. The surge of British and French gold pushed the Bank's total earmarked gold holdings to its high-water mark at the end of 1940, when 43,363,105 fine ounces of gold or the equivalent of just over 108,000 bars of gold rested in its vaults.⁶⁹ Despite the inflows and outflows, the total earmark remained remarkably steady, in the range of 37-42 million fine ounces from 1941 to 1945. However, the number of foreign accounts, as the foregoing narrative has indicated, grew steadily to 19 by the end of 1945 from the three active in late 1939.

Three common denominators run through this impressive expansion in the once rather pedestrian service of earmarking gold for foreign clients. Most obviously, the increase was the result of a flight of capital set in motion by the descent of Europe into war in 1939. Ottawa was a faraway, safe place to store gold and it was solidly in the Allied camp. Ottawa was also well situated for some of the commercial purposes of the Allied war effort, particularly Allied purchases in the still-neutral United States. Furthermore, the Bank of Canada, and other branches of the Canadian government like the Department of Finance, had developed predictable and relatively transparent procedures governing

65 BBOC, Executive Committee, July 11, 1942, August 21, 1942, April 9, 1943 and May 4, 1945.

66 Towers to Ilesley, October 16, 1940, BOC file A23-1.

67 BOC file A34-5A.

68 Towers to Ilesley, August 14, 1943 and W.C. Clark to Towers, August 14, 1943, BOC file A 3-1.

69 This included 8,663 bars held on account for the Canadian minister of finance.

these accounts. Under the pressure of war, the Bank had developed new criteria for evaluating requests for earmarking and had applied them as a condition of opening the account. These usually focused on the *bona fides* of the depositing bank's government. Only in the case of the French gold despatched to Ottawa in 1939-40 were other factors, driven by domestic political concerns, introduced into the evaluation, in this case leading to the placing of foreign gold under the custodian of enemy property. But this decision in late 1940 was the exception that proved the rule. The rule was that the earmarking of gold in Ottawa was seen as a useful financial tool of war, one that geography and institutional affinity had bestowed on the young Bank of Canada. And the chief instrument of that affinity had been the Bank of England, which had invariably either introduced the Bank of Canada to its new earmark clients directly or had taken a facilitating role in bringing the accounts to life. Indeed, it has been speculated that in the dark days of late 1940 Britain even considered establishing a "shadow" Bank of England in Ottawa, where it would be safe from German air attack and free to draw upon its store of earmarked gold and thereby sustain Britain's financial war if the motherland should slip under Axis control. The presence of senior British financial officials, like Sir Otto Niemeyer, in Ottawa through that autumn tends to lend some credence to the notion.⁷⁰ It is worth mentioning that England had also transferred all its negotiable securities (e.g., Treasury bills) to safekeeping in Montreal during these same years.

In the fall of 1940, these three circumstances — the flight of European capital, the sanctity of Ottawa as a financial safe haven and the Bank of England's established influence in the Canadian capital — would combine to produce what was perhaps the most unusual of the Bank of Canada's wartime earmark accounts.

REFUGEE GOLD: THE SUNDRY PERSONS ACCOUNT

Since its inception in 1935, the only clients the Bank of Canada had served were other central banks, the Bank for International Settlements, Canadian chartered banks and the Canadian minister of finance. It was not in the business of retail banking and the closest it got to that function — Section 25 of its incorporation act empowering it to buy or sell gold to anyone tendering its price at its head office — had been suspended by annual orders-in-council since 1935. Nevertheless, the coming of war would bring the Bank of Canada as close to having individual clients as it would ever come. Once again, the initiating and controlling factor was the Bank's relationship with the Bank of England.

The rise of Nazi Germany in the 1930s and the ideological, diplomatic and racial tensions it overtly promoted in the late years of the decade compelled many Europeans to flee their homelands in search of safe haven. Many took their worldly wealth with them. Others, as the recent controversy over dormant accounts in Swiss commercial banks has revealed, transferred some or all of their wealth abroad as an insurance against possible displacement from their homeland if war should come. As tensions grew in Europe, the Bank of Canada quietly discussed the possibility of allowing foreigners to store and perhaps buy gold in Canada's commercial banks. The idea received guarded approval

⁷⁰ George Watts, "A Note on the 'Shadow' Bank of England in Ottawa, 1940" and "The 'Shadow' Bank of England in Canada and Other Related Matters, 1940," Memos of George Watts, BOC Archives.

in Ottawa; there was some fear that news of such activity might trigger gold hoarding by the Canadian public. Nonetheless, the fact that an export licence would be required to move such gold back out of the country was held up as assurance that the ultimate disposition of such gold was within Canada's control. Ottawa therefore seemed to adopt a policy of low-keyed, tacit approval of such foreign deposits. In July 1938, Governor Towers asked the general managers of Canada's chartered banks to provide him with a monthly report of foreign-owned gold in their safekeeping. When war eventually came, he told them that it was their "very definite duty" to report any "suspicious or improper" holdings of foreign gold in the vaults.⁷¹

England, not Canada, however, became a favourite destination for these prewar refugees and their valuables; it was close to Europe and seemingly safe. Once there, European exiles tended to deposit their valuables — often precious metals like silver and gold — in the safekeeping of English commercial banks. With the advent of war in 1939, these European refugees became subject to various constraints placed on their activities as alien holders of gold in Britain. One of these was the necessity of obtaining an export licence from the British government if they wished to take their gold out of Britain. Given the parlous state of Britain in the summer of 1940, this demand grew steadily as European refugees sought to further distance themselves from the menace of the Axis. At this point, the British government began to worry about the ultimate destination or application of such gold once it left Britain. The principal concern was that these small amounts of refugee gold might find their way into the service of the Axis. "We have been concerned for some time," Bank of England senior official G.L.F. Bolton wrote to Donald Gordon at the Bank of Canada in September 1940, "with the degree of veracity to be placed on non-enemy Declarations executed by foreign owners of gold here when applying for permission to export." It was not that their loyalty to the Allied cause was in question, but that they might involuntarily be placed in positions that jeopardized the Allied cause. "In many cases," Bolton continued, "the relative documents have to go through enemy countries and it is probable that pressure is brought to bear on some owners to place their gold where it can be used directly or indirectly for enemy purposes." Consequently, by the late summer of 1940 the Bank of England was refusing all refugee requests to remove gold from the country.⁷²

As Bolton acknowledged, the Bank realized that there was "a strong element of unfairness in maintaining a flat refusal" to all requests to move personal gold out of the country. The predicament of a few penalized the majority, who were presumably immune to pressure from the Axis. The Bank of England was therefore prepared to offer "an alternative" to those refugees eager to move their gold to what they perceived as more secure safe havens. On September 12, 1940, the Bank issued Foreign Exchange Control Notice 234/44. Foreign holders of gold in British commercial banks could surrender their gold to the Bank of England, which would then earmark 95% of the value of that gold in its account at the Bank of Canada in Ottawa. Five per cent of the value would be kept by the Bank of England to cover the cost of handling the transaction. A receipt in the form of a "lodgment form" would be issued to the gold owner, but it would explicitly state that its ownership was "not transferable and not negotiable." "It must be understood, however," the notice warned, "that such

71 See: BOC file 135-7.

72 G.L.F. Bolton to Donald Gordon, September 18, 1940, BOC file A18-17-8.

gold will not be placed at the free disposal of the beneficiary until one month after the date upon which the Emergency Powers (Defence) Act of 1939 expires although the Bank of England would be prepared, in exceptional circumstances, to consider an application for earlier release."⁷³

Foreign gold holders were thus given a safer refuge for their gold and Britain obtained some assurance, since legal control of the account remained with the Bank of England, that the gold could not be redirected to nefarious purpose. As Bolton candidly admitted later in the fall, the "gold offer is intended rather to immobilize than to mobilize foreign holdings and we do not intend to allow release before the end of the war unless for very good and exceptional reasons... the whole administration is centralized with us."⁷⁴

From a Canadian point of view, what is remarkable about this policy is that it was made public six days *before* Bolton at the Bank of England wrote to the Bank of Canada informing Deputy Governor Donald Gordon of its intent and conditions. "The offer pre-supposes," Bolton told Gordon on September 18, "as you will see, that owners will be able to obtain free export facilities from Canada and I assume that as all releases will be authorized by us, under advice to you, there will no difficulty about the issue of export permits from Canada if necessary." Such was the nature of the close relation of the two central banks that Gordon was predisposed to acquiesce to the British proposal, although he had in fact been presented with a *fait accompli*. "I can see no particular difficulty about the arrangement proposed," he wrote on October 10, "and we shall, of course, be happy to receive and hold in custody for you the duplicates of all Lodgment Forms received....I assume that we will not be asked to open special gold accounts for each of the individuals concerned, but that you would simply advise us to release from your stock a certain amount of gold to a specific individual." There was also "no difficulty" about obtaining gold export licences.⁷⁵ In fact, in January 1940 the Bank had made a similar plan available to the Banque de France, but there had been only a single depositor who chose in May of that year to deposit eight bars of gold in Ottawa in return for francs paid out in France.⁷⁶

Almost immediately, refugee gold began arriving in Ottawa. "The offer is now seven weeks old and we have accepted 33 deposits, mostly from Swiss residents, to a total amount of something over £1/2 million," Bolton wrote in early November.⁷⁷ Thus, the value of a refugee's gold surrendered to the Bank of England in London was now under safekeeping in Ottawa. The Bank of Canada was made aware of the identity of individual gold holders by means of duplicate copies of the lodgment forms the depositors had received in London when they or their agents had surrendered their gold. The first deposit was registered on October 18, 1940, and the last appears to have been registered on June 17, 1941. In total, there would be 155 deposits. The records indicate the name of the depositor, their

73 F.E.C. Notice 234/44, September 12, 1940, copy in BOC file A18-17-8.

74 Bolton to Gordon, November 4, 1940, *ibid*.

75 Gordon to Bolton, October 10, 1940, *ibid*.

76 BOC file 1062-A. Another four such deposits were received into this account after the war.

77 Bolton to Gordon, November 4, 1940, *ibid*.

address (not always given in its entirety, e.g., simply a city) and the amount of gold earmarked. The amounts of gold varied dramatically. The smallest deposit was just over 11 ounces of fine gold; the next smallest was 22.5 fine ounces. The largest holding was 267,619 fine ounces — approximately 670 bars of gold. Most holdings were in the range of three to four bars of gold. Some of the deposits were in the form of gold coins. The total sundry persons deposit amounted to just over 526,400 fine ounces of gold or the equivalent of 1,316 bars of gold, of which 499,925 ounces — approximately 1,250 bars — were still the property of the “sundry persons” depositors after the Bank of England retained its 5% handling charge.

Some of the deposits were in a corporate name — usually a bank or a manufacturing concern — but most deposits bore the name of an individual. There was nothing more than a name and an address to suggest the identity of the depositor. It is a dangerous game to extrapolate about race, religion or nationality on the basis of a name and address alone. Nonetheless, a preponderance of the names would *appear* to be Jewish. Many of these appear to have been living in temporary accommodation (e.g., a New York hotel). There were, however, also names which are seemingly Anglo-Saxon, Slavic and Germanic, although, given marriage patterns, this is of course no absolute determinant of faith or nationality. Many of the deposits held in the name of a financial institution were held in the name of a foreign — usually in New York or London — branch of that banking corporation. The addresses were scattered across the face of the earth. They ranged across thirteen countries. There was a concentration in London and New York, but others gave addresses in prominent South American cities like Rio de Janeiro and Buenos Aires. Others lived as far afield as Iran and Hungary. There are no Canadian addresses. Of the minority of corporate clients (i.e., manufacturing companies) within the account, many had addresses in Switzerland.

Despite its seemingly simple terms, the arrangement was from the outset surrounded by confusion. Refugees, who were naturally caught up in the confusion and insecurity of war, were often unsure which central bank actually had control over their gold, despite the fact that this had been carefully spelled out on the lodgment form that was issued to each depositor. The Bank of Canada's first sundry person inquiry was dated October 9, 1940, and came from a Dutch national resident in Portugal en route to America. It contained a request that the Bank of Canada confirm the receipt of a gold bar deposited in London and ensure that it was registered directly in the name of the letter writer. “It is not, of course, our intention that you should act on instructions received in this manner,” Bolton instructed Ottawa, “and we have clearly stated that before delivery of the gold can be effected the receipt must be presented to us. Neither do we wish to place you in the position of having to verify that you are holding gold for any particular individual.”⁷⁸

Both legal and practical control over the account thus rested entirely with the Bank of England; the Bank of Canada was simply the safe-keeper. To this end, the Bank in Ottawa developed a standard response to anyone inquiring about their gold in Canada: “The arrangement which is being made by the Bank of England is entirely in their hands and the whole administration of the offer is being

78 Bolton to D.G. Marble, October 30, 1940, *ibid.*

centralized with them.”⁷⁹

Problems and confusions however continued. The Bank of Canada began receiving letters from refugees holding gold in the account asking that their gold be delivered to them. Their stories were often heart-rending. Many reported that their flight from their homeland had now carried them to one of Europe's neutral countries or to the United States, where, having deposited all or most of their wealth in the Bank of England's sundry persons account, they were consequently no longer able to support themselves and were becoming desperate. Many of these requests went directly to the Bank of England, which had promised to consider early release of gold in exceptional cases. Others mistakenly approached the Bank of Canada with their requests for release of their wealth. A Bank of Canada official candidly admitted to a Canadian diplomat that there was “considerable confusion and misunderstanding regarding the availability of the gold.”⁸⁰ These requests were invariably forwarded to London, where the British usually turned them down, reiterating the original commitment to free the gold soon after the Emergency Powers Act lapsed. Ottawa was never told of the criteria by which these decisions were reached, although the correspondence authorizing release seems to suggest why a minority of deposits were in fact freed before the end of the war. Some cases seemed to indicate that the gold was freed if it seemed destined to be applied to the Allied war effort. One applicant received a release of his gold after he made it known that he intended to apply the proceeds to the purchase of oil tankers.

Other cases indicate that extreme hardship also seemed to carry some weight with the Bank of England, especially if the refugee had acquired U.S. resident status. In July 1942, the Canadian trade commissioner in New York, Douglas Cole, reported to Ottawa that he had been approached by a Czechoslovakian refugee couple now resident in New York. The husband told Cole that he had “taken out his first [U.S. residency?] papers and as such is subject to the American draft and their funds are running low as they are exhausting the proceeds of American securities which they owned before escaping to this country.” Cole told the Bank of Canada that “this couple have gone through murderous experiences and their papers appear to be in order” and asked the Bank to assist them.⁸¹ To reinforce his request, Cole passed on a letter from the refugees. Since 1924, the Czech couple had lived in Vienna, where they owned a cotton and wool factory. It was confiscated in 1938 after the German takeover of Austria. Within a year, their remaining properties and “the fortune of my husband's father” in Czechoslovakia were also confiscated. The couple themselves fled to Paris and after the German invasion of France made their way “with great difficulty” to Lisbon. Finally, in March 1941 they arrived in New York. Just before the outbreak of war, the couple transferred two gold bars they had in an Amsterdam bank to England, from whence they found their way into the sundry persons account in Ottawa. Now they needed the gold. The letter concluded:

We feel that the British Empire never meant to involve such a hardship on people who have suffered tremendously through the action of the axis powers. We can assure you that our

⁷⁹ See, for example, Donald Gordon to New York lawyer representing a gold client, November 4, 1940, *ibid.* Name withheld in deference to privacy legislation.

⁸⁰ S. Turk to New York Trade Commissioner D.S. Cole, July 2, 1942, *ibid.*

⁸¹ D.S. Cole to S. Turk, June 30, 1942, *ibid.*

financial position, prior to invasion, was one that did not give us any concern at all, but we, along with thousands of others, found ourselves suddenly removed from a position of security to one bordering on actual want. If we could receive the monetary value of these bars of gold, we would be in a position to establish a business here in the United States which would afford us an opportunity to start a new life which would settle us completely for the future.⁸²

Ottawa forwarded the letter to the Bank of England, which decided to grant their request. On September 2, 1942, the couple received their gold in Ottawa. Between late 1941 and 1945 there were 34 such early releases of gold from the sundry persons account. Others would not be so lucky.

After the initial burst of activity in 1940-42, the sundry persons arrangement slipped into a kind of mid-war quiescence. There were sporadic requests for release from clients and routine correspondence with the Bank of England, but most holders of gold in the account seemed to have settled down for the end of the war and the much-awaited expiration of Britain's Emergency Powers Act that would follow the coming of peace. The account's existence seemed to attract no publicity outside the Bank's walls, nor was there any trace of concern over the account within Ottawa's wartime bureaucracy. Within the Bank, the prevalent attitude seemed to be that once again the Bank of Canada was extending its warm relationship with its British central bank ally.

GOLD FOR FRANCS: THE ANGLO-SWISS SWAP AGREEMENT OF 1942

Britain's rush to earmark gold in Canada in the anxious years of 1938 to 1940 was primarily driven by the need to put a significant amount of the country's monetary wealth out of harm's reach. This transatlantic placement of gold had the fortunate side effect of allowing Britain a means of meeting the cost of its initial purchases from the still-neutral United States. Between September 10 and 18, 1939, for instance, the Bank of England ordered that \$100 million of its Ottawa earmarked gold be shipped to the Federal Reserve Bank of New York, where it was converted into U.S. dollars to help meet the cost of "cash and carry" purchases from the Americans.⁸³ The pattern continued through the early phase of the war with the United States maintaining its official neutrality while acting out an unofficial friendship with the Allies. When the Lend-Lease Agreement between Britain and her allies and the United States came into effect in the spring of 1941, Britain's appetite for U.S. dollars eased somewhat, as war purchases could now be covered by the British-bases-for-American-equipment swaps that Lend-Lease made possible.

Britain, however, was making war purchases elsewhere and needed other types of hard currency to cover them. Switzerland was one of these suppliers. Even before the war, Britain had traded heavily with Switzerland, running an average annual trade deficit there in the last two years before the war

82 Sundry persons account holder to D.S. Cole, June 27, 1942, *ibid.* Name withheld in accordance with Canada's Access to Information and Privacy Acts (ATIP).

83 BOC file A18-19-9.

of 50 million Swiss francs.⁸⁴ With war, Britain cut its luxury purchases in Switzerland and concentrated on buying war-oriented matériel, such as Swiss-made Oerlikon-Buehrle guns. As a result, the deficit in Anglo-Swiss trade burgeoned. Even when Switzerland found itself surrounded by the Axis in 1940, Britain still managed to smuggle goods out of Switzerland. At the same time, other British activities in Switzerland — legation costs, funding intelligence operations and propaganda activities — ate heavily into Britain's holdings of Swiss francs. Through all this, the Swiss franc remained one of Europe's most durable currencies. While war ravaged the worth of most European currencies (thereby, of course, placing a premium on the value of gold), the Swiss franc remained stable and convertible. The British Treasury in London did its best to conserve Britain's waning supply of Swiss francs, even to the point of applying, in direct contravention of the conditions it had agreed to under Lend-Lease, its holdings of U.S. dollars to Swiss purchases. To avoid tipping off the Federal Reserve to this use of American currency, the British drew these dollars from their account at the Chase National Bank in New York.

But in March 1942, even this expedient and devious means of supporting Britain's purchases in Switzerland came to an end. Switzerland refused to accept any more U.S. dollars. Anxious to deny Germany any means of feeding its war machine with raw materials, such as tungsten, from neutral Portugal and Spain, the United States had prohibited the use of U.S. dollars in such transactions. Since these transactions had often been arranged through Swiss financial channels, the Swiss willingness to accept U.S. dollars declined sharply. At the same time, Switzerland began to guard its monetary reserves in an effort to curb inflationary pressures in Switzerland. The Swiss central bank, the Banque Nationale Suisse, committed itself to maintaining a reserve of 40% of the money in circulation in the country in foreign currencies and/or gold to anchor the domestic performance of the franc and thereby cool inflationary pressures. Since both the Americans and British had also put in place regulations embargoing Swiss holdings of gold and foreign currency held abroad, chiefly in London and New York, the Swiss were unwilling to accumulate any more blocked gold and currency out of the country, where it could not be applied to domestic monetary operations or to pay for its own imports. Thus, while Switzerland could freely export, its ability to import was restricted, thereby creating inflationary pressures. By the spring of 1942, the pressures conspiring to create what one historian has described as Britain's "perennial shortage of Swiss francs" had reached a chronic impasse.⁸⁵

On March 9, 1942, Graham Towers received a coded cable from Montagu Norman at the Bank of England. "For a long time," Norman confided, "we have only been able to obtain our essential Swiss franc requirements against U.S. dollars. Difficulties have lately arisen owing to United States freezing policy. Swiss are now reluctant to accept U.S. dollars without a special licence for their transfer to third party which United States authorities are reluctant to give. We must obtain Swiss francs and are therefore suggesting to Swiss that they sell us Swiss francs against gold [held by the Bank of England in Ottawa]." Norman then stated that the Swiss had asked "in general" whether any

84 My interpretation of the Anglo-Swiss trade and monetary relationship relies heavily on an excellent article, "The Swiss Franc and British policy towards Switzerland, 1939-1945," by Neville Wylie, New Hall & Centre of International Studies, University of Cambridge. A copy of this article was kindly forwarded by the Foreign and Commonwealth Office in London.

85 Wylie, "The Swiss Franc...", p.2.

gold they acquired title to in Ottawa would be “at the free disposal of the Swiss” and in particular whether it could be sold, transferred or exported to other central banks. Norman already sensed that such gold would have to be blocked and even suggested the wording of a response to the Swiss central bank, the Banque Nationale Suisse:

Gold deposited in Canada is subject to an export licence system, permits being based on general allied policy. Transfers to the accounts of any neutral central bank would normally be permitted although there might be some difficulty about Portugal or Spain. Licences would probably be given for exports of gold earmarked for your account to central banks of the western hemisphere. It is most unlikely however that licences would be granted for exports to Europe.⁸⁶

Two days later Towers cabled back: “We agree with reply suggested....” Reading into Norman's message, the Swiss seemed to be probing whether they could obtain Allied gold and not be bound by the blocking arrangements that they had encountered elsewhere. Norman's readiness to confound this expectation indicates that it was only a probe. On March 18, Norman cabled that the Swiss had a fall-back position: “...they are willing for the time being to renounce condition that gold deposited in Canada must be free for exportation to central banks of neutral European countries,” but “they require certainty that such gold can be exported to other central banks of Western Hemisphere and transferred to central banks of Western Hemisphere and of neutral countries Sweden, Portugal, Spain.” Norman said that the Swiss should be made to understand that “transferred” would mean not a physical transfer but a book transfer in Ottawa. Could the Bank of England tell the Swiss that Ottawa agreed to such terms?

A second cable followed on the heels of the first. “It is realized here,” Norman wrote, “that undertaking required by Swiss is not wholly satisfactory to us and involves some risk of eventual transfer for enemy benefit.”⁸⁷ In his reply the next day, Towers said that he could immediately see what this risk was: before any other neutral country in Europe might accept payment in gold from Switzerland it would seek assurance that any gold it took ownership of in Ottawa could be exported within the Western Hemisphere and that the gold might therefore find its way to a country of questionable neutrality, like Argentina. Norman had anticipated this loophole in his previous cable, but had to bow to the exigencies of war. “But after discussion with Whitehall it is felt that necessity to obtain Swiss Francs largely needed for direct war purposes must override these objections.” Towers concurred and suggested that “consideration of this question can be deferred unless and until it is raised by one of the European neutrals.”⁸⁸

86 Norman to Towers, March 9, 1942, BOC file A17-1. It should be noted that this quotation is taken from the file containing the arrangements and correspondence for the Banque Nationale Suisse earmark account that was about to be opened at Bank of Canada in 1942. The file for the Bank of Canada's arrangements with the Bank of England (BOC file A18-17) is missing for the period February 1941 to June 1945. This gap in documentation is discussed in the section of this report entitled “The Documents.”

87 Norman to Towers, March 18, 1942, *ibid.*

88 Towers to Norman, March 19, 1942, *ibid.*

The same day that Towers gave his tacit approval to Norman he telephoned and then wrote to Deputy Minister of Finance W.C. Clark to gain his department's approval of the arrangements suggested by Norman. This was an automatic obligation. An export licence would be required for any earmarked gold held by a foreign bank at the Bank of Canada and experience had shown that the client would want assurance of such a licence in advance. Towers laid out the conditions that the Swiss would accept: "certainty that such gold can be exported to other central banks of the western hemisphere, and transferred to central banks of the western hemisphere and of neutral European countries — Sweden, Portugal and Spain." Towers told Clark that the U.K. government "is not wholly satisfied with the proposals, inasmuch as they involve some risk of eventual transfer for enemy benefit, and they intend to try to make a better deal with the Swiss." But "in the circumstances," Towers concluded, "I do not think that we should refuse to facilitate such transactions."⁸⁹ Towers' letter indicated that Clark was in accord with this reading of the situation.

Clark in Finance did not reply formally to Towers until April 7, in a short letter that betrayed no undue concern and concluded that "there is nothing we can do but to facilitate the transaction...."⁹⁰ Two weeks later, the Bank of England inquired whether the Bank of Canada had secure, coded communications with Switzerland. Ottawa said it did not and said that it would "gladly agree to leave all necessary technical arrangements to you."⁹¹ It was not until April 28 that the first direct communication was received in Ottawa from the Banque Nationale Suisse (BNS) in Zurich. The BNS was no stranger to Ottawa. It had maintained a drawing account in Ottawa since 1935 and had made quiet inquiries in 1939 about earmarking gold in Ottawa. Now the BNS had some definite inquiries. Was it possible "under actual Canadian legislation" that a Swiss commercial bank could open a gold account in Canada? And could that deposit contain gold owned by Swiss commercial banks? Towers immediately turned to Norman in London for advice. Ottawa, he suggested, would accept deposits from a Swiss commercial bank but would not feel bound to respect the hemispheric conditions it had extended to the BNS for shipping such gold out of Canada. Or, as an alternative, Ottawa might open a special account for such gold in the name of the BNS but accept no "fiduciary" responsibility to the Swiss commercial banks actually owning the gold. Towers admitted to being mystified by "what gave rise to the inquiry."⁹²

Not until May 1 did Towers hear back from Norman and what he got was a tutorial in the *realpolitik* of the war's convoluted financial affairs. London was obviously locked in tough negotiations with the Swiss, negotiations driven by its desperate need for francs. The "recent provisional arrangements" made for an account for the BNS "represented a concession by the Swiss National Bank to avoid a breakdown in the financial relations between the sterling area and Switzerland." Despite the concession, Norman had his suspicions about Swiss motives in wanting an Ottawa account. "We suspect therefore that the Swiss National Bank proposes to buy gold in Switzerland irrespective repeat irrespective of origin and ownership either against sales of equivalent gold in

89 Towers to Clark, March 19, 1942, *ibid.*

90 Clark to Towers, April 7, 1942, *ibid.*

91 Towers to Norman, April 23, 1942, *ibid.*

92 Towers to Norman, April 28, 1942, *ibid.*

Canada or a guarantee to the original holders that the Swiss National Bank holds the equivalent gold in Canada to his order.” (Significantly, this was the only instance in the entire post-1935 correspondence between Norman and Towers that Norman had repeated a phrase to add emphasis). Norman feared the “approach made to you tends to confirm our suspicions and we feel that the intention may be to evade the strict freezing measures in Washington, and London.” In short, Norman feared that Switzerland would use the combination of a central bank account in Ottawa with a parallel Swiss commercial bank account beside it to move gold of unknown origin — and Norman must have known that gold looted from occupied countries by Germany was finding its way into Switzerland — into legitimate financial channels. The swapping, either by paper transfer or actual physical transfer, of legitimate gold in the vaults of the Bank of Canada for gold held offshore might fit such designs exactly. “I therefore suggest,” Norman sternly advised, “that you avoid giving the Swiss National Bank any help or encouragement whatsoever either to transfer gold in Canada to the names of private residents or commercial banks in Switzerland or to hold gold in their own names for private Swiss interests.” Canadian commercial banks should be asked to conform to this injunction. Once the possibility of private citizens or Swiss commercial banks moving gold through Canada had been blocked, Norman concluded, then the original “provisional arrangements” might be applied to the BNS alone and gold allowed to come to Ottawa.

Towers got the message. The next day, May 2, the BNS was told by Ottawa that “under existing conditions there are obstacles in the way of acceptance of gold deposits unless the gold is the property of a central bank.” Neither the Bank of Canada nor Canadian commercial banks would be able to deal gold on the basis suggested by the Swiss.⁹³ During this negotiation, Towers had learned that two of Canada's commercial banks had received inquiries “of the same character from Swiss correspondents.” Now he understood their purpose. “Present regulations in the United States,” he confided to Clark at Finance, “provide that gold will only be accepted for safekeeping if it is the property of a central bank or a Government. The Swiss are evidently trying to find out whether our policy is less restrictive.” Towers then despatched a circular letter to the general managers of all Canada's commercial banks. It was “the desire of the Government that no new gold safekeeping accounts should be opened for non-resident banks, corporations or individuals.”⁹⁴

Thus, by early May 1942 the Bank of Canada had worked out the terms under which it would accept gold under earmark from the Banque Nationale Suisse and potentially hold it for other neutral central banks in Europe. It had also shut the door on any of these arrangements being extended to European commercial banks. Much of policy-making on the run was done with advice from the Bank of England. Both Ottawa and London were aware that there remained loopholes in the arrangement — the possibility, for instance, that Ottawa gold might find its way to Argentina — but given London's desperate need for francs, the Bank of Canada was prepared to defer dealing with such eventualities “unless and until” they materialized.

What is remarkable is that even while these arrangements were being framed, refined and set in place

93 Bank of Canada to BNS, May 2, 1942, *ibid.*

94 Towers to Clark, May 2, 1942, *ibid.* and circular letter from G.F. Towers to general managers of Canadian chartered banks, May 4, 1942, BOC file:135-15.

between early March and early May 1942, the Bank of England and the Banque Nationale Suisse were in fact implementing their gold-for-francs swap. Such was the haste of implementing this transaction that there is no document in the Bank of Canada records that indicates the exact date on which the BNS account was opened. Nor is there any written communication between London and Ottawa detailing the sealing of the Anglo-Swiss agreement. The Bank of Canada gold ledger books (the ledgers in which all gold movements — arrivals, departures and transfers of gold — at the Bank were recorded) do indicate that on March 25, 1942, the first transfer instruction was received from the Bank of England. On that day, London asked that 66,815 fine ounces of gold — 166 bars — be moved from its earmark account to the account of the BNS. Thus began a rolling swap of English gold for Swiss francs that was to stretch out in 155 individual transactions until December 31, 1943. On each occasion, gold was transferred by ledger entry from the earmark account of the Bank of England and credited to that of the BNS. It was literally a paper transfer; actual gold bars in the vault stayed where they were and only a bookkeeping alteration was made. By the end of the series, 4,506 gold bars — 1,816,372 fine ounces or over 56 tons — had passed from English to Swiss ownership.⁹⁵ The individual swaps were remarkably evenly paced, usually taking place on a weekly or slightly less than a weekly basis. The amounts were also relatively steady, with occasional upward blips. The largest transfer came in March 1943 when 80,088 fine ounces changed accounts. The smallest — 3,618 fine ounces — came on February 17, 1943. Most transfers were in the range of 6,000-10,000 fine ounces.

The Anglo-Swiss gold-for-francs swap attracted no public attention. Nor did it occasion any unusual bureaucratic deliberation beyond the telephone calls and exchange of memoranda between the governor of the Bank of Canada and the deputy minister of finance. The Anglo-Swiss agreement and its implications for the earmarking of gold by Canada's central bank is never mentioned in the records of the Cabinet War Committee, the political control room of Canada's war effort. Nor is the agreement or its implications mentioned in the listing of Cabinet conclusions. There is no direct correspondence on the matter from Finance Minister J.L. Ilesley to Bank of Canada Governor Towers, only *pro forma* correspondence on such things as gold export licences channelled through his deputy minister. There is no mention of any matters relating to foreign gold in the famous diary of Prime Minister W.L. Mackenzie King. Beyond the original justification given by Norman to Towers that the whole deal was made necessary by Britain's acute shortage of francs, there is no written rationale for the swap in any of the Bank of Canada's files. Only once is there a ray of illumination. On June 22, 1942, the full board of the Bank of Canada convened in Ottawa. War had made the full board's meetings less frequent; the board's executive committee met more frequently. The June meeting was therefore the first full meeting since the Anglo-Swiss arrangements were mapped out. When the board turned to "business arising out of the minutes," Governor Towers was asked to explain the new Swiss earmark arrangements. They had, he told the directors, been established "for the purpose of acquiring Swiss francs, which enabled the [British] authorities to assist prisoners of war."⁹⁶ The matter was not raised again.

95 All statistics in this section taken from the gold record reconstructions undertaken by the Bank of Canada Gold History Project, 1997.

96 MBOC, full board June 22, 1942. There had been no mention of the Swiss arrangements at the board's April 24 meeting.

Even before the Bank of Canada had spelled out in its cable to Zurich of May 2 the final conditions by which the BNS could hold earmarked gold in Ottawa, the Swiss bank began issuing instructions for the transfer of gold to another neutral country account. On April 22, the Bank of Canada received instruction from the BNS in Berne to take “approximately 64,310 ounces” — two tons of gold — out of its new earmark account and place them “at the disposal of Banco de Portugal.”⁹⁷ Although the Banco de Portugal had not as yet established a formal account (for instance, lists of signatures authorized to activate transactions had not yet been exchanged), the Bank of Canada honoured the Swiss request. Because Ottawa did not have secure, coded communications with Lisbon, it was obliged to communicate with the Portuguese central bank via its cable link with the Bank of England.⁹⁸ A week later, the Banco de Portugal initiated formal contact with the Bank of Canada. It acknowledged that it had been “advised” by the BNS that the two tons of gold it had received title to from the Swiss bank was “free to be exported, from Canada, to Central Banks of countries in the Western Hemisphere and is freely transferable, in Canada, to Central Banks of countries on the Western Hemisphere and of neutral European countries.” They forwarded a list of authorizing signatures and concluded with a wish for “a fruitful co-operation between our two Institutions.”⁹⁹ They did not provide — nor would there have been an expectation of such — any explanation of the purpose of their swap for Swiss gold, no sense of what item or service they had surrendered for the gold. Towers was not subsequently quizzed about this new account by the Bank's board.

On May 4, the BNS requested that another 64,837 fine ounces of gold be transferred to the Banco de Portugal account. The transfer was executed on May 5, leaving the Portuguese with approximately four tons of gold resting in the Bank of Canada vault. On May 15, Towers wrote to acknowledge the formal opening of the Banco de Portugal account and its recognition of the conditions set on the movement of their gold in Canada. Towers reciprocated Lisbon's good wishes by “expressing our pleasure in the establishment of business relations with your esteemed institution.”¹⁰⁰ The next day W.C. Clark at the Finance Department reconfirmed that an export licence would be given to the Portuguese under the prescribed conditions “in accordance with the original arrangement approved at the request of the Government of the United Kingdom.”¹⁰¹

After the intense flurry of account openings and gold swaps in the March to May period of 1942, the foreign earmark accounts at the Bank of Canada settled into a quiet mid-war routine. The steady, almost mechanical transfer of Bank of England gold into the BNS earmark account continued. Across the Atlantic in London, Anglo-Swiss negotiations continued as Britain continued to try to find ways to obtain Swiss francs. The Portuguese earmark account became inactive through the rest of 1942 and 1943, with its 321 bars of gold sitting undisturbed. There were no more requests from Switzerland that gold be transferred to the Portuguese or any other account.

97 BNS to Bank of Canada, April 22, 1942, BOC file 515-17-5.

98 Bank of Canada to BNS, April 21, 1942, *ibid.*

99 Banco de Portugal to Bank of Ottawa, April 30, 1942, *ibid.*

100 Towers to Banco de Portugal, May 15, 1942, BOC file 515-17-5.

101 Clark to D.G. Marble, May 16, 1942, BOC file A-17-1.

In November 1942, a secret cable that arrived from Montagu Norman in London shed more light on the tenor of the Anglo-Swiss negotiations that had driven the gold-for-francs swap of the spring. Norman informed Towers that the Swiss delegation that had been parked in London all summer long negotiating the issue of British access to Swiss francs was still at the bargaining table. A "financial agreement" was seemingly at hand "which will have the effect of guaranteeing the sterling area's ascribed requirements of Swiss francs over the next three years at a fixed rate of 17.35." The British would satisfy their part of the deal by supplying "sterling and the balance against gold in Canada." But the Swiss wanted "formal assurance on the line of assurance given last March" that any gold they took ownership of in Ottawa was exportable to Western Hemisphere central banks and transferable to neutral country banks in Portugal, Spain and Sweden.¹⁰² Towers cabled back that Norman could give "the Swiss the assurance they require."¹⁰³

The Swiss negotiations, however, continued to prove arduous and Towers did not again hear from Norman directly until the following December. By then, Britain's desperate appetite for francs had obliged it to relax its vigilance. "Negotiations are at advanced stage with the Swiss for the provision of Swiss Francs to meet the requirements of the sterling area including refugee Allied Governments," Norman cabled. The British would "probably" soon allow the direct sale of gold to the Banque Nationale Suisse "at a Swiss Franc price delivery London with an unconditional export licence for shipment of such gold to any non-enemy territory." The Swiss, however, wanted yet another confirmation of the status of the gold they had accumulated in Ottawa *prior* to the upcoming agreement. More precisely, they wanted assurance that their gold in Ottawa could be moved to Berne "six months after the conclusion of hostilities between the United Kingdom and Germany...."¹⁰⁴

The import of Norman's cable was dramatic. If Britain was now willing to sell its gold directly onto the continent to "non-enemy territory" like Switzerland, Portugal and Spain, then the protective necessity of earmarking gold in Canada evaporated. Whatever the implication of Norman's request, Towers was as usual quick to oblige it. The next day he wrote to Deputy Minister of Finance Clark asking for a reconfirmation of his department's willingness to issue an export permit for the postwar export of Switzerland's Canadian gold. On December 20, Clark reported back that he had discussed the matter with his minister, J.L. Ilsley, and that there would be "no objection," especially since the assurance would help to pave the way for Britain to receive "an adequate supply of Swiss francs...."¹⁰⁵ The same day, Towers gave the nod to London. By that day Britain had already reached agreement with the Swiss for the direct provision of francs for British gold. Britain had finally eased its severe liquidity problems with Switzerland; Britain's purchase of war matériel, like Portuguese tungsten, had become immensely easier, but this had been achieved at the expense of Britain bending its insistence that Allied gold not be traded directly onto the continent while hostilities lasted.

102 Norman to Towers, November 28, 1942, BOC file A17-1. Some words in this cable ("ascribed....Francs") were possibly garbled and were being checked by the cable company.

103 Towers to Norman, December 2, 1942, *ibid.*

104 Norman to Towers, December 17, 1943, *ibid.*

105 Clark to D.G. Marble, December 20, 1943, *ibid.*

On December 30, 1943, the Bank of England made its last transfer to the Banque Nationale Suisse account in Ottawa — 10,076 fine ounces of gold. As the year thus closed, the BNS had a total earmark deposit of gold in Ottawa of 4,617 bars or 1,861,817 fine ounces of gold, all conditioned by the terms set down in the spring of 1942 and all available for unimpeded export once the war was over. The BNS account did not, however, become inactive. On January 7, 1944, the pattern of relatively regular, relatively same-sized transfers of gold into the BNS resumed. This time, however, the correspondent or originator of the transfer was Canada's minister of finance. Realizing that the British had set a precedent for selling gold directly to European neutrals, Ottawa decided to begin covering its own needs for Swiss francs by selling gold to the Swiss and placing it on earmark until the end of the war. Having alleviated their own need for gold to bolster the domestic performance of the franc, the Swiss now renewed their willingness to build up their offshore reserves of gold, ready for postwar applications. Thus, on January 7, the Swiss took title to 4,445 fine ounces or 11 bars of Canadian gold in Ottawa. This gold was sold out of the Minister of Finance Special (Exchange Fund) Account, reflecting the Finance Department's traditional exclusive right to market Canadian gold from the Canadian Mint.

This pattern of Canadian gold passing to Swiss earmark continued until April 1947. By then, 109 transfers had taken place, all in the general range of 6-8,000 fine ounces.¹⁰⁶ This flow had fattened the BNS earmark account in Ottawa to 4,867 bars by the end of 1944 and to 5,479 bars by the end of 1945. With each swap, the BNS in Berne cabled Ottawa that payment for the gold (calculated at 150,074 francs for each 1,000 fine ounces of gold) had been deposited to the Bank of Canada's account at the BNS. The francs were then made available to Canadian banks to meet their Swiss-franc needs to cover Canadian commercial relations with Switzerland. The Canadian banks paid U.S. dollars into the Bank of Canada's account at the Federal Reserve Bank of New York for these francs. Canadian buyers of Swiss francs were thus required to go through Canadian currency controls. In 1944, for instance, Canadians bought US\$5,674,754 worth of Swiss francs in this manner.¹⁰⁷ Thus, the Swiss earmark account in Ottawa found a new purpose and a new, relatively unstrained rhythm for the duration of the war.

GOLD FOR KRONOR: THE PORTUGUESE-SWEDISH SWAP AGREEMENT OF 1944-45

There was, however, one more episode of activity around the neutral country earmark accounts before the war finished. On February 12, 1944, the Swedish ambassador to Canada paid a call on the Bank of Canada. Sweden's central bank, the Sveriges Riksbank, had maintained an operating account with the Bank of Canada since soon after it had opened in 1935: early in the war there had been inconclusive discussion of another account that would act as assurance of Sweden's monetary stability in the event of an attack on the country. Dating back to 1668, the state-owned Sveriges Riksbank was Europe's oldest central bank and as such clearly commanded respect in Ottawa. The

106 A complete listing of these swaps is attached to L.P.J. Roy to BNS, June 13, 1945, *ibid.*

107 Foreign Exchange Control Board memo by S. Turk and C.D. Blyth, February 7, 1945, *ibid.*

ambassador inquired whether the Bank of Canada would be interested in selling the Riksbank Canadian gold for earmark in Ottawa. Bank officials were receptive to the inquiry. They told him that Ottawa's "ability to deal in gold" depended on "whether we actually had gold in Canada surplus to our requirements which we were prepared to place under foreign earmark. We intimated also that, from time to time, there were other buyers in the market." Nonetheless, the Bank was prepared to offer a deal: gold at a discount rate of six cents per ounce off the New York price. The Swedes seemed particularly interested in having gold that could eventually be moved to New York. The ambassador also asked about the Riksbank's freedom to export the gold and was told that the minister of finance would have to be consulted, but it was likely that exports out of the hemisphere would not be permitted.¹⁰⁸

Early in March, the Riksbank let the Bank of Canada know that it wanted to buy US\$15 million in gold bars for Ottawa earmark. Sweden was prepared to hold gold in Ottawa subject to conditions devised in 1942 to cover other neutral country earmark accounts in Ottawa.¹⁰⁹ By March 15, the Riksbank had taken legal delivery in Ottawa of 1,076 bars or 429,111 fine ounces of Canadian-mined gold. Thus another neutral European central bank anxious to accumulate gold had arrived in Ottawa to avail itself of the Bank of Canada's earmarking services.

Late in August, the Bank of Canada received an inquiry from the Banco de Portugal, via London, asking if its gold in Ottawa was "good delivery, New York." It was. A week later, on September 6, the Portuguese instructed Ottawa to transfer "about 1,000 kilos gold fine...good delivery New York and earmarked under the conditions laid down in your letter of May 15th 1942."¹¹⁰ In a second transaction a day later, 32,174 fine ounces — about a ton or 80 bars of gold — was credited to the Riksbank account from the Portuguese account. This was the first activity in the Portuguese account since it had received its original gold from the BNS in 1942. But then twelve days later on September 19 instructions arrived by cable from the Banque Nationale Suisse for 64,386 fine ounces — about two tons — of gold to be placed in the Portuguese account.¹¹¹ Thus, having shed one ton of gold to Sweden, the Portuguese almost immediately acquired another two tons from Switzerland.

On September 30, the Portuguese queried Ottawa whether the gold they had just taken title to was "good delivery New York" and whether it was held under the May 1942 conditions. Ottawa replied yes to both questions.¹¹² Two days later, on October 2, the Banco de Portugal instructed Ottawa to transfer "about 500 kilos fine gold" to the Riksbank. Ottawa duly transferred 16,108 fine ounces to the Swedes.¹¹³ Through all this staccato shifting of gold, the Bank of Canada simply followed the

108 Chief of Foreign Currency Division to Secretary, Bank of Canada, February 14, 1944, BOC file A16-3.

109 Sveriges Riksbank to Bank of Canada, March 8, 1944 and D.G. Marble to W.C. Clark, March 8, 1944, *ibid.*

110 Bank of England to Bank of Canada, September 6, 1944, BOC file A16-3. All Banco de Portugal communications to Ottawa passed through the Bank of England.

111 BNS to Bank of Canada, September 19, 1944, BOC file A17-1.

112 Bank of Canada to Bank of England, September 30, 1944, BOC file 515-17-5.

113 *Ibid.*, October 2, 1944.

instructions it received. Since all parties involved openly acknowledged their compliance with the conditions laid out in the spring of 1942 for neutral earmark accounts, there was no obligation to pass the transactions past the minister of finance. Indeed, there was no written record of any internal consultation or querying of the Portuguese and Swiss requests.

Following the Riksbank's initial receipt of 120 bars — one and a half tons — of Portuguese gold in the fall of 1944, the two central banks then engaged in a series of shuffle trades of what appears to be essentially the same amount of gold back and forth between their Ottawa accounts. All of these transactions were paper transfers. They began in late November 1944 and early January 1945, when Sweden transferred back to Portugal the ton and a half of gold it had acquired in the fall of 1944. On January 26, Portugal sent half a ton back to Sweden, which was then returned by Sweden on February 28. Then in a series of six transfers from Portugal to Sweden beginning on May 7, 1945, and ending on September 13, 1945, Portugal transferred a total of 80,486 fine ounces to the Riksbank.¹¹⁴ The purpose of these shuffle trades is nowhere made apparent, nor did they seem to occasion any undue attention in Ottawa. Once again, the late 1943 slackening of the early war injunction against direct trades of gold into neutral Europe had diminished Allied vigilance over gold trades between neutrals taking place outside of Europe. All of these Portuguese-Swedish swaps took place without delay or inquiry imposed by Ottawa.

Thus, a year after the Banco de Portugal and the Sveriges Riksbank first swapped gold, the Riksbank had acquired about two and a half tons of gold from Portugal. In January and June 1945, the Riksbank bought another 1,230 bars of gold from the minister of finance in Ottawa, so that by the end of 1945 the Swedes, through their direct buying and their transfers from Portugal, had accumulated 2,537 bars or 1,015,595 fine ounces of gold in their Ottawa earmark account. By the same date, the Banco de Portugal earmark in Ottawa had dwindled to 281 bars or 113,133 fine ounces of gold. Neither bank had physically moved gold out of Ottawa.

EARMARKING IN VICTORY: EUROPEAN CENTRAL BANK ACCOUNTS IN OTTAWA, 1945-55

Throughout the war, much of the anxiety that had surrounded the earmarking of gold in Ottawa had revolved around differentiating ally, neutral and foe. All the conditions that were built into the agreements by which neutral and “occupied” countries were permitted to earmark gold in Ottawa were predicated on the eventual return of peace and a return to prewar normalcy, after which the earmarking of gold would revert to a straightforward, no-questions-asked central banking procedure. The most prominent example of the kind of wartime conditioning of the earmarking of gold was, of course, the guidelines laid down in the spring of 1942 and applied to the rights of Switzerland, Portugal and eventually Sweden to hold gold in Canada. Beyond such blanket injunctions, there had been much tailoring of the earmark procedure to the peculiar wartime situation of individuals and countries. France saw its gold frozen in Canada, largely as a result of political rather than moral or legalistic reasoning. Other occupied nations had been permitted to earmark as usual, even though their governments were in exile. And, in perhaps the greatest departure from normal central bank practice, the Bank of Canada had allowed the lodging of gold belonging to individual European

¹¹⁴ All these transfers are documented in BOC files 515-17-5 and A16-3.

refugees in its vaults. For all of these parties, the return of peace promised the return of normal banking arrangements.

Perhaps strangely, the end of the European war did not signal a scramble to Ottawa to unravel the awkward implications of wartime earmark banking. There were no sudden closings of accounts, no hurried exodus of blocked gold out of Canada and no recriminations. For some nations, the impositions of wartime banking were lifted early. The Allied liberation of France cleared the way for the restoration of legitimate government under General de Gaulle and consequently under the provisions of P.C. Order #8965 the custodian of enemy property returned control of 11,135,127 fine ounces of gold to the control of the Banque de France on December 28, 1944.¹¹⁵ Similarly, the liberation of Europe allowed other central banks to return to normal operation from similarly arduous, if less stringent, wartime constriction. The Bank of Canada was therefore quick to recognize the return of normal central banking authority to Norway, the Netherlands and Belgium. In some cases, there were changes in name — the Norwegian government, for instance, established the Norges Bank in 1946 to act as its new central bank — but for purposes of recognizing control over earmarked gold stored in Ottawa, these presented no problem. Only in the case of Bank Polski were there jurisdictional problems. The exiled central bank of Poland had been recognized by the Allies and allowed to operate its accounts during the war, but the postwar provisional government was of a different ideological stripe than its prewar predecessor. At first, Canada delayed honouring the new government's request that Polish gold in Canada be shifted to its authority. But such resistance flew in the face of the new geopolitical map of Europe and finally in July 1946 the Bank of Canada released control over gold earmarked in Ottawa to the authority of a new Polish central bank.¹¹⁶

Switzerland had perhaps the most to expect in Ottawa from the return of peace. Beyond England, it had the largest gold holding in Canada and, unlike England, its gold was blocked. Not surprisingly, not long after peace came to Europe, the Swiss inquired about their gold at the Bank of Canada. On July 11, Ottawa received a cable from the BNS in Zurich. For some years, the Swiss pointed out, they had made francs available to Ottawa free of restriction in return for gold that was blocked in Ottawa. "We suppose that these restrictions have lost their importance for you since the end of European war so that we may hope that our existing and future deposits with you will from now on be entirely free for use for transfer and eventual transport to Switzerland."¹¹⁷ After checking with the acting deputy minister of finance, Dr. W.A. Mackintosh, the Bank replied that export licences would be granted to any "existing or future deposits" the Swiss held in Canada, except for those destined for "enemy countries," a provision that reflected the continuing war in the Pacific.¹¹⁸ Despite this clearance, the Swiss did not empty their Ottawa earmark account overnight. Instead, it in fact grew. By year's end in 1945, Switzerland had 5,479 earmarked gold bars in Ottawa. A year later, the total had climbed to 6,259 bars.

115 BOC file A 6-4.

116 BOC file A13-2.

117 BNS to Bank of Ottawa, July 11, 1945, BOC file A17-1.

118 Bank of Canada to BNS, July 12, 1945, *ibid.*

There is no documentary record that either Portugal or Sweden sought to clarify the status of their Ottawa gold in the months following the peace. In June, the Riksbank did write to query postwar exchange arrangements between Stockholm and Ottawa, but there was no mention of earmarked gold, except that Sweden might sell such gold to generate U.S. dollars.¹¹⁹ Neither Sweden nor Portugal cleaned out their gold accounts in Ottawa with the peace. In fact, at year-end 1945 and year-end 1946, they had exactly the same earmark balances — 2,537 Swedish bars and 281 Portuguese bars.

The earmarking of gold in Ottawa hit its peacetime stride with remarkable ease. Only a handful of small earmarks that had only wartime rationales (e.g., the Bank of Bolivia and the Banque Melli of Iran) left completely. Otherwise, earmarking flourished at the Bank of Canada. New European clients arrived — Austria and Denmark in 1951 and West Germany¹²⁰ in 1954.

While normal earmarking reestablished itself after the war, one last legacy of wartime earmarking was quietly wound down. The sundry persons account had been holding gold since 1940-41 for as many as 155 depositors who had sought to protect their personal wealth by moving it across the Atlantic and placing it in the safekeeping of the Bank of Canada. In point of law, these deposits were included in the Bank of England's earmark account in Canada and those who had entrusted their gold to the arrangement were beholden to London, not Ottawa, in matters of control over their deposits. Throughout the war, inquiring depositors were invariably told that their gold would not be “allowed free disposal until one month after the expiry of the Emergency Powers (Defence) Act, 1939” in Britain, except in exceptional conditions. The minority — about 22% — of the depositors were successful during the course of the war in convincing the Bank of England that their need, and presumably their *bona fides* in the eyes of the Allies, outweighed any risk of releasing their assets during hostilities. The rest of the depositors quietly waited out the war.

On December 12, 1945, the British Parliament voted for the repeal of the Emergency Powers Act on February 24, 1946. The Bank of England soon began to receive requests for the release of gold under the sundry persons account in Ottawa. From the outset, the release process worked smoothly and without obstacle. Once London approved the release, depositors had various options in reclaiming their gold or its equivalent value. The Bank of Canada made it clear that it would not earmark gold for private citizens and that the gold would have to be claimed and taken away. Upon release, gold could be shipped to England or another European country through the intermediary of a Canadian chartered bank. This would necessitate the obtaining of an export permit and the payment of shipping charges. The Bank of Canada itself offered on behalf of the minister of finance to buy small amounts of gold, but warned that this might snare foreigners in Canada's non-resident foreign exchange controls and thereby make the proceeds of the sale non-convertible. It was also suggested that if the central bank of the depositor's homeland had an Ottawa earmark account, the gold might be sold to it and the depositor receive payment in the national currency. It was, for instance,

119 Bank of Canada to Sveriges Riksbank, June 11, 1945, BOC file A 16-3.

120 The West German central bank, the Bank deutscher Länder, had been created in 1948 and was totally distinct from the wartime Deutsche Reichsbank. There is no connection between the 1954-56 gold transactions conducted by the Bank deutscher Länder and any gold transactions that took place during World War II and immediately after the end of that war.

suggested by the Bank of Canada that the Banque Nationale Suisse might buy the gold of Swiss nationals in return for francs.

By May 1946, instructions began arriving at the Bank of Canada for the disposition of gold held in the sundry persons account. By 1955, 107 such requests were received and processed. In all these cases of release, the Bank of Canada had received assurance from the Bank of England that London had satisfied itself that none of the claimants were of enemy origin. Sometimes these claims came directly from the depositor or his/her agent. Sometimes they came from a Canadian chartered bank that had been instructed to collect the gold and forward it or sell it in behalf of the depositor. Whatever the instruction, the Bank acted expeditiously. Demand for transfer not surprisingly peaked in 1946 and 1947, with 84 requests processed, but claims were registered throughout the rest of the decade. In 1949, for instance, a lawyer in London, England, wrote to claim gold in the account on behalf of the sole heir of a wartime depositor in the sundry persons account who had subsequently died. The Bank of England had approved the release and a New York lawyer had been designated to collect the gold. "We understand," the letter concluded, "that Mr. Katz [the client's lawyer] has already been in direct communication with you regarding the form in which the gold will be handed over, and we should be greatly obliged if you would give him any information he may require in this connection."¹²¹ A Bank of Canada official pencilled at the bottom of the letter: "We have done so."

On June 7, 1955, the last sundry persons deposit was claimed and settled. When the Bank of Canada informed the Bank of England of this transaction, London replied that "the repayments under the Foreign Owned Gold Scheme are now complete." The account should therefore be closed. Since the Bank of England had also employed the same account to hold various small amounts of gold for other purposes, it instructed Ottawa to transfer the residue of the account — some gold coin — into its main Bank of Canada account. The chief cashier of the Bank of England ended his letter of instruction to Ottawa by noting: "I should like to take this opportunity of expressing the Bank's thanks for your co-operation over the years in the administration of the Scheme." The Bank of Canada's June 28 acknowledgement of this instruction is the last piece of correspondence in the sundry persons account file. In effect, it marks the end of the Bank of Canada's involvement in the earmarking of foreign gold in World War II.

¹²¹ London lawyer representing sundry persons account holder to Bank of Canada, August 29, 1949, BOC file A18-17-8.