GOVERNMENT OF CANADA

STATEMENTS AND SPEECHES

INFORMATION DIVISION
DEPARTMENT OF EXTERNAL AFFAIRS
OTTAWA - CANADA

No. 47/21

CANADA'S DOLLAR CONSERVATION PROGRAMME

An address by Hon. D. C. Abbott, Minister of Finance, over the C.B.C. network, November 17, 1947.

This evening I have some important announcements to make which have been foreshadowed by the Prime Minister who has just finished speaking from London. As Mr. King has emphasized, the Trade Agreements recently concluded at Geneva are a great step forward in the direction of freer trade and world recovery. Taken with the Marshall Plan which is now under consideration by the United States, the Geneva Agreements hold forth rising hope of world recovery and of orderly and expanding trade between nations, toward which objects Canada has been striving in her foreign economic policy.

Emphasis on Constructive Approach

The fact that the rapid depletion of our exchange reserves now compels us to take some special actions to strengthen our trading position implies no lessening in our determination to work toward the objective of world recovery and expanding trade. Indeed, the program I have to announce is designed to overcome our present exchange difficulties in the shortest possible time through constructive rather than restrictive actions and policies. Restrictions are used only to the extent that they are essential to bridge the gap between the present and the time when the full effects of the constructive longer-range measures can be realized.

Reduction of Exchange Reserves

There can be no doubt that action to safeguard our national position is urgent and essential. We came out of the war with very substantial reserves of gold and U.S. dollars -- about $1,500 million at the end of 1945. Last year we ended up with $1,245 million. Last Thursday our reserves were down to slightly over $500 million. This is a trend which cannot be allowed to continue. It has of course been a matter of grave concern to the Government for some time. The Government felt, however, it would be unwise to reach a final decision in regard to its program until it knew the results of the difficult and far-reaching trade negotiations which were being carried on at Geneva and until the prospects for implementation of the Marshall Plan became more definite. I am satisfied that course was the right one.

Reasons for Loss of Reserves

Our heavy loss of exchange reserves arises from two major developments. The first is Europe's critical economic position. The second is the tremendous increase in the quantity and costs of imports from the United States. We had expected to draw substantially on our exchange reserves for a period of two or three years after the end of the war. Economic recovery in Europe and Asia was clearly going to take some time. It was also clear that our imports from the United States would be very large. But as events have transpired, recovery in Europe has suffered disappointing setbacks, bad weather and poor crops have intensified the need for outside assistance and the assistance made available so far, though large, has proved insufficient for the task. Europe's ability to send us more goods in settlement for purchases from us has shown little improvement and that in turn has accentuated our dependence on imports from the United States. Moreover, the level of our own consumption and the rate of expansion in our physical capital have exceeded the most optimistic forecasts and these, combined with the marked rise in prices in the United States, have swelled our dollar imports to a truly remarkable extent.

You can look at our position in this way. When a country sells goods on credit it must export more than it imports or draw on its foreign exchange or other capital assets to pay for part of its imports. In 1946 we sole more goods and services abroad than we purchased, with the result that the loss in our exchange reserves was not large. This year, however, we have increased our imports to such an extent that we have bought about as much as we sold. A substantial part of our sales, however, has had to be on credit and, therefore, we have had to dig deeply into our exchange reserves to pay for our increased imports. In other words, we have been financing a very high level of consumption and investment at home by drawing on our exchange reserves.

A Many-Sided Approach

There is no simple or painless way of correcting our dollar problem. It is so large that it must be attacked from many sides. The Government has considered just about every feasible course of action and has arrived at what I believe to be a balanced and constructive program.

Currency Not to be Depreciated

One commonly discussed course of action -- depreciation of our currency -- has been considered and rejected. Currency depreciation is a mreasure which may be appropriate to deal with a situation where a country is in balance of payments difficulties because its costs and prices are at a level which does not enable it to compete in world markets. This is far from being our case. Costs and prices in Canada are lower than they are in most countries with which we compete in world trade. Price competition with others is not restricting our exports. On the contrary, our difficulty in obtaining United States dollars in adequate amounts for our exports arises from the international financial difficulties in which some of our best customers find themselves, and these would not be corrected by depreciation of the Canadian dollar.

So far as imports are concerned, we find no reason for thinking that exchange depreciation of an amount which could be deliberately undertaken would exercise any considerable restraining influence. After all, the prices of our imports from the United States have risen by nearly forty per cent since June, 1946, and at the same time our imports have continued to rise month after month. What reason would there be to assume that a further price increase of, say, ten per cent brought about by currency depreciation would restrict, to any worthwhile extent, our buying in the United States? Of Course, if we were to reduce the value of our currency far enough we could restrict imports from the United States but the penalty would be an immediate and violent rise in prices, far beyond anything ever experienced in Canada.

To the other unavoidable upward pressures on prices the Government does not propose to add currency depreciation.

In the program which we have worked out, the emphasis is on constructive and non-restrictive measures which in time should be sufficient to meet our exchange problem.

Geneva Agreements and Marshall Plan Vital Steps

It will be quite clear that the most effective and desirable solution would be to see Europe and Asia again in a position to engage in multilateral trade and to pay for their purchases from others in goods or convertible exchange. The conclusion of the Geneva agreements and the development of the Marshall Plan are vital and encouraging steps in this direction.

The form in which the Marshall Plan is implemented will have a very important bearing on our exchange situation, and, indeed, on the formulation of our policy in many fields. It will necessarily have a bearing on our continued participation in the European recovery program. In relation to its productive capacity Canada has played a major part in the post-war program for world reconstruction. Our ability to continue this contribution depends in part on our ability to maintain at a high level the importation of essential materials and equipment from the United States; and this in turn depends on the volume of our United States dollar earnings. We have pointed out to the United States how our difficulties in buying from that country arise very largely from our inability to sell to Europe for dollars, and we have expressed our concern that dollars made available by Congress for aid to Europe will be used in part to purchase supplies in Canada and elsewhere that are not readily available in the United States.

Expect Use of Marshall Plan Funds in Canada

The United States Government has now recommended to Congress that it should authorize the use of funds voted for aid to Europe in making purchases outside the United States. In the expectation that this policy will be implemented, we are ascertaining what supplies can be made available from Canada for this purpose. A program of this kind would resemble in many respects the Hyde Park Agreement that proved to be so effective and constructive during the war. Our actions in the past have demonstrated clearly our concern with the recovery of Europe which is the purpose of the Marshall Plan. Despite our exchange difficulties, we intend to permit the countries to which we have authorized credits to use at an appropriate rate the still considerable unexpended balance, if at all possible. We intend to do so because we are convinced that the recovery of Europe is vital to Canada's prosperity.

Maximum Economic Cooperation between Canada and the United States

We are not, however, in a position to wait for European recovery which will take time. We must increase substantially our supply of U.S. dollars. Canada has depended heavily on sales overseas to provide the foreign exchange with which to meet our requirements in the United States, and we are finding this to our disadvantage today as we have on several occasions in the past. The new trade agreements announced tonight will help to improve this condition but they will not of themselves be sufficient. We propose to take further steps to bring about a better balançe of trade with the United States. We are determined to find a lasting solution to our difficulties in the expansion of our trade rather than in the straight-jacket of restrictions. There are a number of constructive lines along which we can work and we must use them all. The Governments of Canada and the United States are consulting on measures designed to facilitate the earliest possible removal of the temporary import restrictions to which I shall refer in a moment, and to achieve the maximum degree of economic cooperation between the two countries.

Diversion of Exports

One obvious way in which we could increase our dollar receipts would be to divert to U.S. dollar markets exports which we are now selling elsewhere on credit. To some extent this is feasible and necessary since many of our overseas customers are in a position where they are restricting their purchases from us. We do not wish, however, to go too far in such a diversion of exports both because of the urgent needs of the United Kingdom and other overseas countries for some of our products and also because of our interest in maintaining essential markets.

Constructive Measures for Trade Development

The more positive approach is to expand our production for export to the United States, and to develop our natural resources and manufacturing industry in a manner that will permanently reduce the undue lack of balance in our trade with that country. The reduction in U.S. tariffs under the Geneva Agreements should much increase the opportunities of certain Canadian industries in the United States market. The Government hopes and expects that such industries will adapt their production to take the fullest advantage of their opportunities and in many cases expand their capacity. Some of our natural resources can and should be developed and further processed in a manner that will help to ease our dollar problem.

Better Balance in Branch Plants Operations Needed

Another very important aspect of the effort to achieve a better balanced position concerns the operations of branch plants in this country. We have always wished to encourage development of U.S. branch plants, but in the face of our exchange problem today we suffer from the disadvantage that these plants are heavy importers of parts and materials which must be paid for in U.S. dollars while they are exporting to countries which find it difficult or impracticable to pay in dollars. It is therefore essential that such manufacturing industries should concentrate on the development of U.S. dollar sources of income with which to offset their U.S. dollar outlays. It should be possible, for example, for the Canadian automobile industry -- which produced large amounts of the cheapest and most efficient army transport during the war -- to produce automobile parts or models for sale in U.S. dollars to balance the large purchases of components and materials which they make in the United States.

Program of Encouraging Efficient Development

The Government will make every feasible effort to encourage and to co-operate in the development of these plans. I should make it clear, however, that what the Government has in mind in this whole program is not the stimulation of uneconomic production, but rather the encouragement of more rapid development of our resources and industry in an efficient manner.

Stimulation of Gold Production

Development along these lines must be pursued vigorously. It will take time to work out its concrete application and the need is pressing. Meanwhile, there is one Canadian industry in particular which should be able to effect a rapid and substantial increase in its production if some assistance is provided now. I refer to the gold mining industry, which has at the present time a large unutilized capacity, and which produces a commodity for which there is an unlimited dollar market. Increases in the costs of gold production which have occurred during the past few years have made much of our potential production unprofitable. This has reduced the output of certain existing mines and has slowed down prospecting for new properties.

The Government has come to the conclusion that, as part of its general program for dealing with the present exchange emergency, it should take additional steps to assist in removing the deterrent effect on production of rapidly rising costs combined with a fixed market price for the product. In considering the form of action, we must have regard not only for administrative considerations, but also for our obligations under the International Monetary Fund Agreement. The precise details will therefore not be made known until they are laid before Parliament but, in order to avert speculation in the interval, I will state now that it is the intention of the Government to defray for a three-year period, to be defined in the legislation, the costs of additional gold production over and above the amounts produced in the year ended June 30, 1947, to the extent of $7 for each fine ounce of additional production.

The constructive program I have outlined obviously cannot be put into effect overnight. It can be started at once but it will take some time before it can be fully effective in stopping the drain of U.S. dollars to which we have been subject.

Temporary Restrictive Program

This means that we must develop a temporary restrictive program to meet the immediate emergency. This short-run emergency program consisting of measures designed to restrict our use of U.S. dollars includes sweeping restrictions on imports and on pleasure travel, and the imposition of special excise taxes for the purpose of restricting the purchase of many of the durable kinds of consumer goods which are either imported or contain a significant import content.

First as to the import restrictions. These will involve the complete prohibition of the imports of some consumer goods and the imposition of quotas on others.

Control of Capital Goods Imports

With respect to what are generally known as capital goods, neither a complete prohibition nor a quota system is applicable. It is proposed therefore to place specific classes of capital goods in a category under which imports may be controlled and restricted. The Minister of Reconstruction and Supply, who will be charged with administering this phase of the program, will be in a position to review with industry proposed expenditures involving imported machinery, equipment and materials with a view to seeing to what extent such drains on our dollar resources may be eliminated, reduced, or postponed.

Import Prohibitions

Turning now to the restrictions on imports of consumer goods, the list of outright prohibitions is a long one which covers principally goods which are already produced in Canada to a substantial degree or are in some cases of a semi-luxury or non-essential type, and it includes such items as jewellery, candy, novelties, typewriters, radios, refrigerators, washing machines, and furniture. We are also, at the outset, prohibiting temporarily the importation of all motor vehicles, but we intend in the near future to replace this complete prohibition with a restrictive quota system.

Quotas on Important Classes of Imports

There are other classes of imports which, though important and desirable, have grown to excessive proportions in relation to our needs and our capacity to pay out hard currency. To these classes of goods we are applying quota restrictions. Obviously, I cannot give complete details in this talk, but in the fruit and vegetable field, for example, oranges, grapefruit, lemons, fruit juices, potatoes, apples and onions are being placed under a quota. Imports of almost all out-of-season fresh fruits and vegetables as well as of almost all kinds of canned goods are being prohibited but no restrictions are applied to bananas, raisins, figs and prunes. In textiles no restrictions are placed on raw materials and yarns but almost all other textiles, whether in the form of fabrics, or made-up wearing apparel, or other finished goods, are to be under another quota. There are two more quotas, one including all leathers, all kinds of footwear, gloves, leather garments and luggage, and the other a group of sundry items including clocks and watches, cutlery, games, toys, sporting goods, and smokers' supplies.

Each of these four quotas will be divided into two parts - one part applying to imports from countries which we must pay in dollars and which we do not know to be short of dollars; the other part applying to imports from all other countries, being either countries which we do not need to pay in dollars or which are short of dollars themselves and whose trade we should encourage if we can. The quotas are set for each group of countries on the basis of twice the pre-war value of imports except for the textile quota which is four times pre-war. Individual importers share in the group quota in accordance with their share of the imports concerned during the twelve months ending June, 1947. The current rate of imports from the group of countries short of dollars is far short of the quota, and it will not be necessary to restrict these imports from such countries so long as their trade remains below the quota level. Imports from the first group of countries, however, will be under strict control and will generally be cut severely.

Import Controls Non-Discriminatory

This system of quotas is, of course, hard to explain in a short talk but detailed explanations and examples will be found in the newspapers tomorrow, and full details and instructions will be available to importers from their local collectors of customs. Goods now in transit to Canada will be admitted without reference to these new prohibitions and quotas, but this exemption will not apply to goods on order. The plan does not involve discrimination against imports from some countries in favour of the same goods imported from other countries. Prohibitions apply to imports from all countries; quotas are based on pre-war trade, and permit the maximum flexibility in their use that we can afford. In selecting items to be restricted we have, of course, endeavoured to pick those which we must pay for in U.S. dollars, and we have tried to interfere as little as possible with the export trade of those countries which are short of gold and foreign exchange.

Restrictions Effective Now

At the coming session of Parliament a special Bill will be introduced concerning these emergency restrictions. In order to avoid widespread anticipation and evasion of these restrictions in the next few weeks, which would cost us many millions of dollars that we cannot afford, we will ask Parliament to make this new law apply as from midnight tonight, and we will put these restrictions into effect in advance, as we do in the case of Budget proposals. This can be done under the provisions of the Foreign Exchange Control Act. At the time this Act was passed the Government did not believe that such power was contained in the Act, but we are now advised by the law officers of the Crown that it provides the legal basis for such restrictions as are proposed. In the urgent circumstances which face us, we have decided that this power should be used until Parliament has the opportunity to pass specific legislation.

Cut in Travel Expenditures

The travel restrictions which are going into effect are approximately the same as those which prevailed immediately after the war. Effective from November 15th, the annual ration of funds for pleasure travel will be fixed at an amount not to exceed $150 per person for those who desire to travel in a U.S. dollar area. Applications for travel funds when required for genuine reasons of business, health, or education will be dealt with on their merits. We take this step reluctantly since it limits the friendly contacts between our people and our neighbours to the south, but we simply cannot afford the large sums of U.S. dollars that Canadians are spending in pleasure travel.

Special Taxes on Durable Consumer Goods

Import restrictions alone will not be enough to keep down our use of goods which contain a high proportion of parts or materials from the United States. Many of these goods are produced on a large scale in Canada and we cannot properly limit and ration the imported parts and materials. I am, therefore, proposing to use the same fiscal devices as we used during the war to restrict purchases of this type of goods. The Government will ask Parliament to place an excise tax of twenty-five per cent on a wide range of these durable consumer goods, the purchase of which can normally be postponed by the average family if necessary and most of which are of a less essential character. This tax will apply to sporting goods, outboard motors, pleasure launches, firearms, oil burners, motorcycles, musical instruments, cameras, radios, phonographs and to most types of electrical home appliances. In some cases there is already a ten per cent tax that is to be increased to twenty-five per cent. In the case of automobiles, the present ten per cent tax is to be increased to twenty-five per cent on the value up to one thousand two hundred dollars with fifty per cent applying to the additional value up to two thousand dollars and seventy-five per cent on the excess over two thousand dollars. These taxes of course will apply on the manufacturer's price, not the retail price.

Taxes Designed to Limit Purchases

These new or additional taxes are not being proposed for the purpose of raising revenue. Their purpose is to limit expenditures on these goods and thereby on the steel and other imported materials or parts which they contain. We should partially defeat our objective if, after banning many such imports, domestic production of the same type of articles were to expand to fill the gap at the cost of further substantial imports of components and materials.

Tax Reductions

While the cold facts of our dollar position make it necessary to impose these special types of taxes, we are proposing to remove or reduce certain other taxes in cases where this should result in a lowering of the prices of essential goods which have to be purchased by all Canadian families. With this in mind I am proposing that the excise tax of one cent a pound on sugar be removed, that the import duty on tea from the normal sources be removed, that the duty on coffee be reduced, and that electricity and gas used in dwellings be exempt from the eight per cent sales tax.

Now that the Government's proposals have been announced, we propose to follow the usual budgetary practice of asking Parliament to make them effective from the time of announcement, and taxes at the new rates will therefore be collected on all sales by manufacturers and on imports, beginning tomorrow morning.

Short-term Credit From U.S. Export-Import Bank

While the effects of this whole program will be very substantial, there will still be a deficit in our trade with the dollar area which will not for a time be fully offset by our receipts of U.S. dollars from the United Kingdom and other countries to which we are selling a portion of our exports on credit. To provide for this situation, and in order to supplement our holdings of gold and U.S. dollars and our rights to draw upon our quota in the International Monetary Fund, we have believed it prudent to arrange for temporary financing in the United States. A foreign loan is not of course a solution to our dollar problem. It merely provides a supplement to our exchange reserves to take care of a temporary deficit until the constructive, longer-run measures which are going into effect get into full operation and produce a more reasonable balance in our commercial and financial relations with the dollar area. Not only does it give more time for the constructive solutions, but it also permits the adoption of a program less upsetting to business than would otherwise be necessary. Without the margin of safety which a loan provides, the program of restrictions would have to be much more severe which would not only cause undue dislocations to the Canadian economy and to many of our suppliers in the United States, but would impair the contribution which an efficiently functioning North American economy should be able to make to the economic restoration of the war shattered countries.

In the ordinary course of events, dollars borrowed by the Dominion of Canada in the United States would have come from private investors. In the present circumstances, however, it was felt that the magnitude of the sum required, and the necessity for quick decision, made it advisable to approach a public institution, namely the Export-Import Bank of Washington. Arrangements have been made with that Bank for a credit of three hundred million dollars.

The step taken in arranging for a credit from the Export-Import Bank is a departure from our normal practice of securing necessary U.S. dollar financing by sale of our obligations to banks or other private investors in the United States. In the near future, however, we intend to investigate the possibility of borrowing in this form. It is the statutory responsibility of the Export-Import Bank not to compete with, but rather to encourage and supplement, the use of private capital in financing United States foreign trade. With this in mind, the Export-Import Bank always welcomes the prepayment of loans or reduction of its commitments to lend if borrowers are able to obtain their requirements from other sources.

United States Attitude

You will observe that one of the foundations of this program is co-operation with the United States both in respect to mutual trading problems and to assistance to other countries. In discussing this plan of action with the United States authorities and in securing their co-operation, we have had a most understanding and helpful reception. I do not know how generally is realized the magnitude of the responsibilities that are falling upon the Government, the Congress and the people of the United States at this highly critical time in the world's affairs. We in Canada, situated so similarly, are perhaps in a better position than most to appreciate their problems, and I think it is fitting that we should note and acknowledge what the United States is doing and planning to do in the task of world reconstruction.

Restrictions Unavoidable But Temporary

I am well aware that the restrictive aspects of this program will come as something of a shock to many Canadians. It is regrettable that such action has to be taken, but to adopt a lesser program would be to risk failure and to invite conditions which would necessitate far more drastic restrictions. The program has to be sufficient to meet the problem. We cannot temporize with our national welfare. The emphasis is on the longer range constructive measures which will steadily work to produce conditions under which the restrictive aspects of the program will become unnecessary. We intend to get rid of these restrictions just as soon as circumstances will permit.

Industry and Public Can Help Make Program Work

The speed with which these constructive measures will produce the necessary results depends to a very important degree on active and vigorous co-operation by business and the public generally. We believe in a free economy in this country and we do not want to get entangled in a massive system of restrictive controls. That means it is up to all of us to make the constructive and basic part of this program work. The responsibilities of business and industry to expand their U.S. dollar-producing activities are clear, and greater opportunities are being provided. Industry has also the responsibility of working and co-operating in efforts to reduce and offset the drain of U.S. dollars which is involved in many of our manufacturing operations. In addition the business community can help greatly by deferring less essential plans for physical expansion. The import controls over capital goods will necessitate reconsideration of a good many such plans, but these controls will be less restrictive and the pressure on building costs will be eased if businessmen carefully re-examine their plans and defer for the time being those which are not urgently necessary. The responsibilities of the general public, if less specific, are also clear. Let us constantly remind ourselves that one of the main reasons for the great expansion in imports from the United States is the high level of consumer purchases in this country. To the extent that we can defer for the time being our larger expenditures and economize in our day to day spending, the dollar problem will be lessened and the upward pressure on prices reduced.

Prosperity Related to World Conditions

The truth is that we in Canada have been living somewhat beyond our means during the last year or more -- not beyond what we could afford if the rest of the world was restored to economic health, but beyond what we can afford in the world as it is today. We cannot expect to be completely prosperous when much of the rest of the world in which we live, and on which we depend for a large part of our trade, is just beginning to recover from the terrible destruction and dislocation of the war.

So we have to make adjustments to bring our national living standard within the limits of what we can afford in the difficult conditions that surround us. For most of us, this moderate measure of austerity will mean inconvenience and for some it will create difficulty, but a problem of this magnitude cannot be solved painlessly.

Canada's Basic Position Sound

At the same time, let us keep our difficulties in their right perspective. In comparison with most of the rest of the world we are a very fortunate people. Our trouble arises from the misfortunes of other countries, not from any basic weakness in our own economy. Our basic position is sound. Our level of employment is at the maximum. We have a great and expanding capacity to produce. We are producing at a high level and at relatively low cost. This country of ours has had a notable record of achievement during and after the war - a record which has given us self-confidence and raised Canada's stature in the eyes of the world. Let us keep up that record in surmounting the present emergency, conscious of our responsibilities and confident of our great future.

18/XI/47