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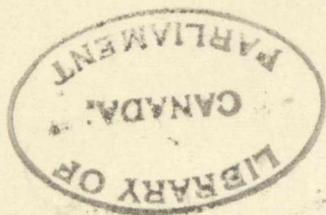
Canada. Parl. H. of C.  
Standing Comm. on Banking  
and Commerce, 1946.  
Bill 195.

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SESSION 1946

HOUSE OF COMMONS

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STANDING COMMITTEE

ON

# BANKING AND COMMERCE

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BILL 195, FOREIGN EXCHANGE CONTROL

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

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TUESDAY, JULY 9, 1946

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WITNESS

Mr. L. Rasminsky, C.B.E., Chairman (Alternate) Foreign Exchange  
Control Board.

(Including statement by Hon. D. C. Abbott)

OTTAWA  
EDMOND CLOUTIER  
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY  
1946

## ORDERS OF REFERENCE

HOUSE OF COMMONS,  
FRIDAY, March 29, 1946.

Resolved,—That the following Members do compose the Standing Committee on Banking and Commerce:—

Messrs.

Argue	Fulton	Marquis
Arsenault	Gour	Maybank
Beaudry	Hackett	Mayhew
Belzile	Harkness	McIlraith
Black ( <i>Cumberland</i> )	Harris ( <i>Danforth</i> )	Michaud
Blackmore	Hazen	Murphy
Bradette	Ilsley	Nixon
Breithaupt	Irvine	Picard
Cleaver	Isnor	Pinard
Coté ( <i>St. Johns-Iberville-Napierville</i> )	Jackman	Quelch
Dechene	Jutras	Rinfret
Dionne ( <i>Beauce</i> )	Lesage	Ross ( <i>Souris</i> )
Dorion	Low	Sinclair ( <i>Ontario</i> )
Fleming	Macdonnell ( <i>Muskoka-Ontario</i> )	Stewart ( <i>Winnipeg North</i> )
Fournier ( <i>Maisonneuve-Rosemont</i> )	MacNaught	Strum (Mrs.)
Fraser	Manross	Thatcher
	Marier	Tucker—50.

(Quorum 15)

Ordered,—That the Standing Committee on Banking and Commerce be empowered to examine and inquire into all such matters and things as may be referred to them by the house; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

TUESDAY, 14th May, 1946.

Ordered,—That the quorum of the said Committee be reduced from 15 to 10 and that Standing Order 63 (*d*) be suspended in relation thereto.

Ordered,—That the said Committee be empowered to sit while the house is sitting.

TUESDAY, 2nd July, 1946.

Ordered,—That the following Bill be referred to the said Committee, viz:—  
Bill No. 195, an Act respecting the Control of the Acquisition and Disposition of Foreign Currency and the Control of Transactions involving Foreign Currency or Non-Residents.

THURSDAY, 4th July 1946.

Ordered,—That the said Committee be given leave to print from day to day 1,000 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence, and that Standing Order 64 be suspended in relation thereto.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

TUESDAY, 9th July 1946.

Ordered,—That the name of Mr. Gauthier (Nipissing) be substituted for that of Mr. McIlraith on the said Committee.

Attest.

R. T. GRAHAM,  
*Deputy Clerk of the House.*

## REPORTS TO THE HOUSE

TUESDAY, May 14, 1946.

The Standing Committee on Banking and Commerce begs leave to present the following as a

### FIRST REPORT

Your Committee recommends:

1. That its quorum be reduced from 15 to 10 and that Standing Order 63 (*d*) be suspended in relation thereto.
  2. That it be empowered to sit while the House is sitting.
- All of which is respectfully submitted.

HUGHES CLEAVER,  
*Chairman.*

WEDNESDAY, July 3, 1946.

The Standing Committee on Banking and Commerce begs leave to present the following as a

## FOURTH REPORT

Your Committee recommends that it be given leave to print from day to day 1,000 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence, and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

HUGHES CLEAVER,  
*Chairman.*

## MINUTES OF PROCEEDINGS

TUESDAY, July 9, 1946.

The Standing Committee on Banking and Commerce met at 4.00 o'clock p.m., the Chairman, Mr. Cleaver, presiding.

*Members present:* Messrs. Argue, Belzile, Black (*Cumberland*), Blackmore, Breithaupt, Cleaver, Dechene, Dorion, Fleming, Fraser, Gauthier, Gour, Harkness, Hazen, Isnor, Jackman, Jutras, Lesage, MacNaught, Mayhew, Michaud, Nixon, Pinard, Quelch, Rinfret, Sinclair (*Ontario*), Stewart (*Winnipeg North*), Strum (Mrs.), Thatcher.

*In attendance:* Hon. D. C. Abbott, representing the Minister of Finance; Mr. R. W. Mayhew, M.P., Parliamentary Assistant to the Minister of Finance; Mr. L. Rasminsky, Chairman (Alternate), Foreign Exchange Control Board, and Mr. R. H. Tarr, Secretary, Foreign Exchange Control Board.

The Committee commenced consideration of Bill 195, an Act respecting the Control of the Acquisition and Disposition of Foreign Currency and the Control of Transactions involving Foreign Currency or Non-Residents.

Mr. Abbott made a brief statement on the necessity of maintaining a measure of foreign exchange control.

Mr. Rasminsky was called and answered questions with respect to certain provisions of the Bill.

The preamble and clause one of the Bill were adopted.

At 6.00 o'clock the Committee adjourned until Thursday, July 11, at 8.00 p.m.

R. ARSENAULT,  
*Clerk of the Committee.*



## MINUTES OF EVIDENCE

HOUSE OF COMMONS,

July 9, 1946.

The Standing Committee on Banking and Commerce met this day at 4.00 o'clock p.m. The Chairman, Mr. H. Cleaver presided.

The CHAIRMAN: We have a quorum; if you will come to order.

We propose to take up to-day bill 195. Mr. Rasminsky, Chairman (Alternate) of the Foreign Exchange Control Board is here at the disposal of the committee, as is also Mr. Tarr, the secretary of the Board. Mr. Abbott is also here, and I would like him to make a brief statement first, and then I thought perhaps the best thing would be for us simply to start in on a section at a time and for the committee to ask questions of Mr. Rasminsky and Mr. Tarr. That is why I wrote to you suggesting that you read the speech of the Minister of Finance in advance to indicate the need and the reasons for the measure which we are now discussing. Mr. Abbott.

Hon. Mr. ABBOTT: Mr. Chairman, ladies and gentlemen, Mr. Ilsley asked me if I would assist him and Mr. Mayhew in the handling of this bill before the committee. I assumed from the remarks that were made by those who spoke on the second reading that the principle of the bill is approved, that it is not a matter of controversy, that for some little time at any rate we will need to maintain a measure of foreign exchange control. The world is passing through a transitional stage in monetary and international exchange relations as well as in some others, and the indications are that that condition may continue for some little time. Just how long that transitional period will last is, of course, impossible to say.

Members of the committee will recall that in connection with the British loan, for instance, the transitional period of five years was fixed as being the period in which there would be no interest, and that took into account recognition of the fact that during a period of probably four or five years conditions with respect to international exchanges would not return to normal. Similarly in the Bretton Woods agreement it has been recognized that there will be a period of about five years at any rate in which it is contemplated that ordinary international exchange relations will not have become normal. Mr. Macdonnell in his remarks in the House suggested that a term should perhaps be placed on the bill which is now before the committee. The bill is drawn in the usual way, and following the usual principle of British parliamentary practice as contrasted with the American, there is no time fixed for the duration of the act, it being left to parliament to decide at the appropriate time, whether the act should be repealed or continued.

I have no fixed idea on the matter, nor has the government. We will be glad to have the views of the committee on that particular point. If I could express a personal opinion I would say, I think in view of the fact that we are admittedly in a transitional period of uncertain duration it would be well to follow and accept the British practice and enact the bill in the form in which it now stands, so far as term is concerned, and not fix a time certain for its termination. On the other hand, the committee may feel that there should be some such term, and the government would be very glad to consider the views of the committee in that respect, and I will be glad to have any members who care to put their views forward do so now.

I would like to say that if any term were fixed I think it will be clear to members of the committee that it must be a substantially longer term than the one which has been fixed for the National Emergency Transitional Powers Act of sixty days after the opening date of the next session.

I think it is pretty clear to everyone that a substantial measure of exchange control will be needed for some considerable period of time; and for that reason I repeat what I said a moment ago, I really believe that it would be preferable to follow the accepted British practice of not inserting a term in this bill, leaving it to parliament to decide when it is necessary or desirable that the Act should be repealed.

Other than that, I have no particular comment to make at this time with respect to the measure.

The CHAIRMAN: Thank you, Mr. Abbott.

Now, ladies and gentlemen, what are your views in regard to the way we should approach the study of this bill? What I would suggest would be that I think we are all in agreement that there must be adequate exchange arrangements. I would suggest that the non-contentious clauses, the routine clauses down to and including section 3, we might just as well carry, and then we might want to have some discussion and make some inquiries in regard to what is meant by "ministerial control". That comes up in section 4. We will then be into the meat of the Act. As we know, it is our job to scrutinize the bill to make sure that it is a full and complete legislative measure which will function properly, because we are moving out of the period when if anything slips an order in council can be passed to correct it.

Do you want then to carry the preamble?

Mr. HAZEN: I would like to ask a question if I may?

The CHAIRMAN: Certainly.

Mr. HAZEN: Last December we passed an Act giving authority to the government to accept and carry out the obligations of Canada under a recognized agreement called the international monetary fund.

The CHAIRMAN: Yes.

Mr. HAZEN: And under that Act we were to set up an international fund of I think it was 8,000,000,000, of which Canada's contribution was to be something like \$300,000,000.

The CHAIRMAN: That is right.

Mr. HAZEN: What puzzles me is that I do not know enough about it, that is the reason why I am asking these questions. Why is it that we have to have an Act of this kind in view of the fact that we entered into this agreement contributing \$300,000,000 to it? I understood that that fund was stabilized international exchange.

The CHAIRMAN: Yes.

Mr. HAZEN: Why do we need another Act to stabilize international exchange when last year we passed an Act adopting this agreement and putting \$300,000,000 into this fund for that purpose?

The CHAIRMAN: The very same point occurred to me, and if you like I will now ask Mr. Rasminsky to answer your question.

**Mr. L. Rasminsky, Chairman (Alternate), Foreign Exchange Control Board, called:**

The WITNESS: In the Bretton Woods Agreement Act we accepted certain obligations regarding the stability of the Canadian dollar which are set out in the articles of agreement of the fund. What this Act does in the preamble and in the operative sections relating to the exchange rates is to define the technique by which we propose to carry out those obligations.

There are three possible ways in which we can carry out our obligation under the Bretton Woods Agreement regarding exchange stability. These three ways I believe were mentioned by the Minister of Finance in his speech on this measure at the resolution stage in the House. One way would be for Canada to go on to an international gold standard, that is to say, to undertake an obligation to buy and sell gold at a fixed price in terms of Canadian currency. The second method under which we could effectively stabilize the Canadian exchange rate would be to operate an exchange equalization account; that is, to set up a fund which would purchase any excess offerings of Canadian dollars in the foreign exchange market which might otherwise tend to depress the price of the Canadian dollar, and purchase any excess offerings of foreign exchange in the Canadian exchange market which might otherwise tend to appreciate the price of the Canadian dollar. Such an account would be an account of the type of the United Kingdom Exchange Equalization Account which was operated from 1932 until 1939. That is a fund which intervenes in the exchange market without concerning itself in any way with the type of transaction which gives rise to the demand for foreign exchange in the exchange market. It would stabilize the Canadian dollar by providing foreign exchange at the pegged rate whether the Canadian dollars offered in the exchange market were for the purpose of buying goods abroad or whether they were for the purpose of enabling residents of Canada to purchase foreign securities or to transfer their capital abroad; it would make no distinction, in other words, between types of transactions. That would be the second possible method of fulfilling the general obligation regarding exchange stability under the Bretton Woods agreement.

The third method, and the method which the government in introducing this measure has decided to follow, is the method of exchange control. That is a method under which the government takes power to fix the rate of exchange and stands ready to buy and sell foreign exchange at those fixed prices provided that, through its mechanism, the Foreign Exchange Control Board, approves the type of transaction giving rise to the exchange transaction itself. That provides for exchange stability while leaving it free to the government operating through its mechanism, the Foreign Exchange Control Board, within the limitations set out in the measure, to prohibit certain types of exchange transaction. At the present time the only types of exchange transaction which are prohibited are certain types of capital transaction; that is to say, attempts on the part of Canadians to buy foreign exchange for the purpose of acquiring foreign securities or merely for the purpose of transferring their capital abroad where they might leave it idle in the form of bank deposits. To sum up the difference between this measure and the Bretton Woods agreement, the Bretton Woods measure was concerned with the question of principle, acceptance of certain obligations regarding exchange stability. This measure is concerned exclusively with the question of technique, the method by which that obligation will be discharged.

Mr. HAZEN: Mr. Chairman, did each nation that joined this International Monetary Fund adopt some form of machinery, some legislation?

The CHAIRMAN: Similar to this.

Mr. HAZEN: To control their exchange?

The WITNESS: Each nation which is a member of the International Monetary Fund will be obliged, in order to discharge its obligations, to adopt one of the three methods that I have mentioned: either the gold standard, an exchange equalization account or exchange control. To the best of my knowledge the only country which will stabilize the value of its currency through the method of gold purchasing is the United States; and while one cannot speak with assurance about the intentions of other countries, I should think it extremely likely that, with very few exceptions, the other members of the International Monetary Fund will, at least during the transitional period, apply exchange control.

By Mr. Hazen:

Q. Do you know how many members that belong to the fund have adopted one form or other of the three methods that you have mentioned?—A. I think that every country which is a member of the fund, operates either an exchange equalization account or a system of exchange control, and the great majority operate systems of exchange control.

The CHAIRMAN: I think that is very helpful, Mr. Hazen; thank you very much.

Mr. QUELCH: Following that up, I can quite see that as a member of the fund, it is absolutely essential that we should maintain a foreign exchange control board or some similar organization. But as a member of the fund we are under certain rules. Therefore I am somewhat puzzled by the statement made by the Minister of Finance to be found at page 2620 of *Hansard* in which he states, in the third paragraph—

Mr. ABBOTT: What page was that, Mr. Quelch?

Mr. QUELCH: Page 2620, in the third paragraph, line 3, reads:—

We expect to be able to avoid any interference with current account transactions.

I am puzzled at that statement because, as a member of the fund, we are under a direct obligation to avoid it. It is not a question of expecting to be able to avoid it. We have to avoid it, do we not? Does that mean to say that the minister is somewhat dubious now whether we might have difficulty in avoiding that? Is it not correct that under the operation of the fund we cannot interfere with current transactions?

The WITNESS: Of course, I do not know what the minister had in mind in making that precise statement.

Mr. QUELCH: Perhaps I should read the whole statement. I think that will explain it. It reads:—

We have no intention of using this exchange control legislation to restrict anything but certain types of capital movement.

We are allowed to do that in the Bretton Woods agreement. But then he goes on to say:—

We expect to be able to avoid any interference with current account transactions.

The point is that we have to avoid that whether we like it or not, except under article 7.

The WITNESS: I do not think that is quite accurate, Mr. Quelch. The obligation to avoid restrictions on current payments as stated in article VIII, section 2 of the articles of agreement in these words:—

(a) Subject to the provisions of Article VII, Section 3 (b)—

Which is the scarce currency article.

—and Article XIV, Section 2—

Which is the transitional period article.

—no member shall, without the approval of the Fund, impose restrictions on the making of payments and transfers for current international transactions.

It is always open to the fund to grant permission to a country to impose restrictions on current account transactions. I think a possible interpretation of what the minister said is that he did not think it would be necessary for us to apply to the fund for its approval to our placing restrictions on current account transactions.

Mr. QUELCH: The intention is, is it not, that as far as possible nations should avoid any interference with current account transactions?

The WITNESS: That is right.

Mr. QUELCH: And should only try to restrict capital exports?

The WITNESS: That is right.

Hon. Mr. ABBOTT: As you will appreciate, we have not had to interfere with current trading transactions during the whole period of the war when the exchange control was in effect.

Mr. FLEMING: Mr. Chairman, I wonder if Mr. Rasminsky would just, in general terms, tell us how the powers proposed to be conferred on the Foreign Exchange Control Board and the minister under this bill compare with those enjoyed by the minister and the board under the orders in council under which they have been operating since 1939?

The WITNESS: I will try to do that, Mr. Fleming. The powers under this bill will permit the board to carry out the same type of administrative practices, to run an exchange control system of the same type as is the case at the present time. There are certain respects, however, in which the powers of the board have been curtailed in the present measure as compared with the Foreign Exchange Control Order. One of those—and I am afraid this is not going to be very systematic—

*By Mr. Blackmore:*

Q. Do you mean the order during the war?—A. I mean the Foreign Exchange Control Order under which we have been operating during the war. One respect in which the powers of the board are curtailed relates to the enforcement provisions of the board. Under the Foreign Exchange Control Order the board had power to carry out enquiries in which the evidence taken could be used in court proceedings against the person who was the subject of the enquiry, notwithstanding the provisions of the Canada Evidence Act. In the present legislation which is before the committee that power is withdrawn from the board. The ordinary provisions of the Canada Evidence Act apply with one exception. That exception relates to the compellability of the banks to produce documents and to give evidence. Under the Canada Evidence Act the banks are not compellable to produce documents relating to the affairs of their clients. Under this measure it is, of course, necessary to make them compellable so to do because the foreign exchange transactions consist in large measure of transactions that take place between banks and their clients.

*By Mr. Hazen:*

Q. What sections of the Act are those?—A. The section to which I have just referred is section 41, subsection (4).

Hon. Mr. ABBOTT: Possibly your point could be fully covered if, as we go through the Act section by section, Mr. Rasminsky, who is familiar with both the present order and regulations and the new bill, could point out in what respects the bill differs from the existing order and regulations.

Mr. FLEMING: I did consider that, and I thought it better to ask for this bird's eye view of the differences now. I thought it would achieve two purposes. One would be to attract the attention of the committee to certain perhaps broad differences in approaching a review of the bill. In the second place I do not know how far at this stage we want to pass sections of the bill. That was a point I was going to raise in connection with your suggestion earlier that we might take certain sections and pass them and go on to certain others. Nor do I know whether we want to get into a discussion on this point at the present time, but it seems to me we may want to hear other witnesses besides Mr. Rasminsky before we attempt to pass any parts of the bill. If it were a matter of taking

the sections in turn for the purpose of considering or asking questions arising out of them that is one thing, but to pass the sections and in that way preclude discussion of them in the light of information that might be brought to the committee by witnesses called later I do not think would be advantageous.

The CHAIRMAN: I agree with you. I believe in the study of this bill that we should adopt a practice that would be as flexible as possible. I think we should distinctly understand right at the outset that notwithstanding the fact that the committee carries a section that it can be referred back to and reopened on request. I want the committee to have the utmost confidence in the fact that we want the fullest possible inquiry. I do not want any member of the committee to feel that he is barring his rights by passing a section. The reason that I suggested that we would pass the first three routine sections was that we would get down to an orderly discussion. I think we would understand the subject a good deal better if we take it up a step at a time. I agree that a general bird's eye view would be helpful but, on the other hand, it might mean that we would lose a lot of detail that we otherwise would gain by going over the bill a section at a time.

Mr. BREITHAUP: I feel that the method suggested by you has considerable merit because if we wander all over the bill we are naturally going to have a great deal of repetition. As you have left it open to come back to any section I think it is quite all right to proceed as you suggest.

Mr. FLEMING: Perhaps we are not so very far apart. I had not in mind in asking my question of Mr. Rasminsky that we would go into any of the details of the differences. I thought he might be able to indicate three or four of the salient departures in this bill from the substance and practice under the order. It might help us in our approach to the bill. I had not in mind that we would go into the details of them.

The WITNESS: There are five or six main respects in which the powers of the board are different that I might mention. The first is the one I have mentioned under section 41, the restricted powers with regard to inquiries. The second relates to the promulgation of regulations under the measure. That is section 35. The board may make regulations of various sorts as it now has the power to do. The difference as compared with the present practice lies in subsections 2 and 3 of section 35 which now provide that regulations shall not become effective until approved by the Governor in Council and published in the *Canada Gazette*. Up to the present time the board itself has had the power to make regulations for the purposes, broadly speaking, set out in section 35, subsection 1. Under this measure those regulations are not effective until approved by the Governor in Council and published in the *Canada Gazette*. The second difference from existing practice is provided under subsection 3 of the section which provides that every regulation has to be laid before parliament within fifteen days after it is made or if parliament is not then sitting within fifteen days after the commencement of the next ensuing session thereof.

A third respect in which the present measure differs from the foreign exchange control order is that where possible leave to appeal from rulings of the Board has been introduced into the present measure. That is found in section 37 which provides for appeals to the minister and section 38 provides for an appeal to the courts against the determination of fair value by the Foreign Exchange Control Board.

Another respect in which this measure differs from the situation is with regard to the administrative setup. At present the Foreign Exchange Control Board is responsible directly to the Minister of Finance and finances itself out of its own earnings. The board's earnings are derived from the spread between the rate at which it buys and the rate at which it sells foreign exchange. It pays certain remuneration to the banks in that connection and covers its own

administrative expenses. Section 12 provides that the Bank of Canada in its capacity as fiscal agent is to act as technical adviser and is to provide the board with staff, premises, and so on. It is also provided that the remuneration paid to the banks shall be, as it is the case at present, disbursed from the exchange fund. But all other expenses of the board are to be covered, as provided in section 13, out of moneys provided by parliament. The purpose of introducing that change was, of course, to give parliament the ultimate financial control and to make it necessary to have budgetary appropriation for certain of the administrative expenses of the Foreign Exchange Control Board year by year so that there would be regular occasions when parliament would have an opportunity of reviewing the operations of the Foreign Exchange Control Board.

Under the Foreign Exchange Control order, the board fixes the exchange rate upon instructions from the Minister of Finance. Under section 18, subsection 1 of the present measure, the Governor in Council is given the authority to prescribe the exchange rates, rather than the Minister of Finance.

Certain changes have been made in the authority of the board to invest its funds. Assurance is given that the board will not accumulate currencies for the purpose of extending credit to foreign countries without specific direction from the Minister of Finance; and the Minister of Finance has to report to parliament within thirty days what limits have been fixed for such accumulation. Those are rather detailed questions which you may want to have explored more fully when we come to those sections.

*By Mr. Fleming:*

Q. Did you refer to the section in connection with that last difference?—

A. No, I did not. It is section 5.

*By Mr. Isnor:*

Q. In view of the fact that the board finances its operations from moneys or revenue derived through the exchange, what effect would the statement made by the minister last Friday evening have on your operations?—A. The statement made by the minister on Friday night will, I think, have no particular effect upon the board's operations. That is to say, the board will buy exchange for approved purposes at the rates which were fixed by the minister on Friday night and continue to sell foreign exchange for approved purposes at the new rates. The statement made by the minister on Friday night will, of course, have an effect on the valuation of the assets of the board.

Q. And an effect by reduction of your earnings?—A. I do not think it would reduce our earnings, since our earnings are derived from exchange turnover. Our earnings depend entirely on the amount of exchange we buy and the amount of exchange we sell. That is, they depend upon our current operations. Our income statement depends upon our purchases and sales of exchange. Our balance sheet will, of course, be affected, because the board is carrying its foreign exchange, United States dollars, sterling, and its gold holdings at cost which is, for practical purposes, \$1.10, to the American dollar; and the statement made by the minister will, of course, cause the board to revalue its inventory of foreign exchange.

*By the Chairman:*

Q. And the over-all result, I suppose, too, will depend on the extent to which Canada is able to maintain a favourable over-all balance. That is, if we had a heavy debit balance, complications might arise.—A. If we had a heavy debit balance at some time in the future, this exchange policy would come under consideration. I do not know whether that is the point.

Q. Yes, that is what I had in mind.

*By Mr. Quelch:*

Q. Could Mr. Rasminsky say what percentage of exports are priced in Canadian funds, and what percentage are priced in foreign funds?—A. No, I could not give an accurate answer to that, but broadly speaking, I think it would be true to say that our exports to the United Kingdom and to the other countries which are financed largely out of Canadian dollar credits, tend to be priced in Canadian funds.

Q. That was not true before the war, was it? Before the war we sold to Britain generally in prices of sterling?—A. I think it differed from industry to industry; but certainly a larger proportion of our trade with the United Kingdom was conducted in terms of sterling before the war than is the case now.

Q. Will not the primary producers of this country be somewhat penalized by putting the Canadian dollar on a parity with the United States dollar, especially in view of the fact that we are competing with Argentina and Australia, whose currencies are so low at sterling?—A. It seems to me that you are asking me to comment upon government policy.

Q. No, sir. It seems to me in the future, Argentina and Australia may raise the value of their money and peg it to the funds. But in the meantime we may have to compete with those currencies at a very disadvantageous rate of exchange.—A. I take it that the countries you have chosen for illustration, Argentina and Australia, are not members of the international monetary fund; and the situation, in view of the fact that Argentina and Australia are not members of the international monetary fund, both being competitors in certain lines, might be that they will seek to get an advantage over Canadian exports in certain countries by competitive exchange depreciation. If that were to happen, if Argentina and Australia set out deliberately on a policy of competitive exchange depreciation, and the Canadian economy were seriously disturbed as a result, I think it likely that Canada would be in a position where she could claim that a "fundamental disequilibrium" existed as a result of that action on the part of the countries you have mentioned. If so, under the terms of the Articles of Agreement of the International Monetary Fund, the fund must authorize a change in our exchange rate. Of course, if the change which Canada wished to make were only 10 per cent, she could make that on her own motion without necessarily getting agreement of the fund; but if the change were larger, the fund would have authority to express its disapproval of the change.

The CHAIRMAN: Looking to the long term view, no country that deliberately decided to do that could become very prosperous by so doing. They could only do it by maintaining a very low standard of living in their own country.

*By Mr. Quelch:*

Q. Have not some states built up their industries as a result of competitive exchange depreciation?—A. I cannot think of any example of a country that has made a substantial contribution to its industrial growth, Mr. Quelch, as a result of competitive exchange depreciation.

Q. Did not Australia help to get itself out of the difficulties it was in in 1930 and 1931 by so doing?—A. There was a whole combination of measures, the so-called premier's plan, which included exchange depreciation, reduction in lending, and compulsory write-down in interest; it was a combination of internal deflation or internal price reduction and currency depreciation.

Q. You are familiar with the report of the Royal Commission in Manitoba in which it was maintained that maintaining the dollar at 20 per cent above sterling, while Australia maintained her 25 per cent below sterling, cost the western provinces on an average of \$37,000,000 to \$47,000,000 a year. Is that a fair statement to make?—A. I am not familiar with the statement. I find it difficult to comment on it without being familiar with it.

*By Mr. Fleming:*

Q. I think the committee and all other members of the House have a high opinion of Mr. Rasminsky's powers as a draftsman, bearing in mind certain sections of the United Nations charter; but I should like to ask him what part he has played in the drafting of this bill before us—Bill 195?—A. I am not old enough at this game to know which questions it is proper for me to answer.

The CHAIRMAN: Would you care to say whether the bill has your blessing?

The WITNESS: Yes, the bill like all legislative measures was drafted by the Department of Justice. I have seen various drafts of various provisions in the Foreign Exchange Control Bill. The principal board draftsman, the one who has been in closest touch with the Department of Justice, is Mr. Tarr, the secretary of the board. If any questions relating to precise drafting are raised that we feel he can answer rather than ask someone from the Department of Justice to answer, I would turn those questions over to Mr. Tarr.

The CHAIRMAN: Would you care to answer this question: are there any important features which you believe should have been dealt with in the bill that have not been dealt with in the bill?

The WITNESS: No, I do not believe there are any important omissions from the bill.

*By Mr. Blackmore:*

Q. Is not the primary object of this bill to avoid adverse trade balances rather than to stabilize the value of the dollar?—A. No, sir.

Q. What point would there be in the remarks of the minister when he talks so much about trade balances?—A. I do not know which remarks of the minister you are referring to.

Q. I will get them for you later on.

*By Mr. Quelch:*

Q. If we did suffer an unfavourable balance of trade would it not be advantageous to drop the dollar back; and would not it help to encourage exports?—A. The question of the appropriate valuation of the Canadian dollar or any other currency is clearly a question which has to be considered from time to time in the light of the circumstances prevailing at the time. I do not think it is possible to take a hypothetical circumstance, such as the adverse trade balance or any other single factor, and say that in the future if that single circumstance occurs that it will at that time be appropriate to change the value of the Canadian dollar. I think that the appropriate valuation depends upon a whole complex of circumstances.

Q. It might be, on the other hand, one of the measures adopted?—A. It certainly would be one of the factors to be taken into consideration.

Q. There is a statement in the report of the fund at page 9 at the head of the page under exchange control policies and methods and the reasons for exchange control. It is on the fourth line:—

The purpose of exchange control was to maintain exchange stability and to conserve Canada's supply of United States dollars for essential war and civilian requirements by ensuring that it was not dissipated on non-essential purposes such as capital export.

That would still be the purpose, would it not, in part under the new Act?

Mr. STEWART: It is part of the preamble.

The WITNESS: Yes, sir, that sentence covers two of the three purposes as stated in the preamble.

*By Mr. Quelch:*

Q. On page 15 under the heading of imports on the fourth line it says:—

Its function is to ensure that when United States dollars are supplied to pay for imports, goods of equivalent value have entered or will enter Canada within a reasonable time. . .

A. Yes, sir.

Q. “. . . and that such goods did not originate in the sterling area.” It is not the intention of the board, is it, to designate in any way what type of imports would be brought in?—A. No, sir.

Q. It is not their affair?—A. No, sir.

Q. There would be the danger that funds might be dissipated by bringing in what you call non-essentials?—A. What would be necessary in that contingency, Mr. Quelch, would be for the government of the day to take appropriate action other than through the Foreign Exchange Control Board to limit our expenditure of United States funds for such purposes.

Q. How was that done during the war?—A. That was done during the war through the War Exchange Conservation Act which was passed in December, 1940. In fact, in this bill the draftsmen have gone to particular pains to make it clear that the board does not have power to exercise any restriction of any sort on the type of goods which may be legally imported into Canada.

The CHAIRMAN: If the board were suspicious that the importation of goods in question was for the purpose of a flight of capital you would interfere, would you not?

The WITNESS: Well, sir, if goods were introduced to a value equivalent to the funds that were exported then I do not think there would be a flight of capital. If goods were exported and the funds were not brought home then there would be a flight of capital. But pursuing the line of thought I was on before, if you will be good enough to look at section 26 on imports you will see that subsection (1) provides:—

- (1) No person shall, except in accordance with a permit,
  - (a) import any property into Canada; or
  - (b) being a resident, either in Canada or elsewhere purchase or agree to purchase from a non-resident any goods which are to be imported into Canada on terms providing for payment to a non-resident of a price greater than the fair value thereof or otherwise than in a currency designated by the Board as payable in connection with such a transaction.
- (2) The Board shall not withhold a permit for the import of goods into Canada in any case where the payment made or to be made therefor to a non-resident does not exceed the fair value thereof and was made or is to be made in a currency designated by the Board as payable in connection with such a transaction.

It was thought undesirable to give an administrative body such as the Foreign Exchange Control Board any authority to determine the character or volume of imports into Canada. There is a similar restriction in section 25 (2) dealing with exports: subsection (1) provides that no person shall export any property from Canada except in accordance with a permit from the Foreign Exchange Control Board; and subsection (2) makes it clear that the board is not to withhold a permit for the export of goods from Canada where payment of not less than the fair value in currency acceptable to the board is to be received within a specified time.

In other words, the board can exercise no administrative judgment whatever as regards the import and export of goods into Canada. In a sense, it is a misnomer to refer to permits in this connection. What permit really means is a certificate that the export has in fact taken place, or a certificate that the import has in fact been made.

Hon. Mr. ABBOTT: In fact, is it not better to say this provides machinery which enables the Board to scrutinize import and export transactions?

The WITNESS: That would be a very accurate statement.

*By Mr. Quelch:*

Q. I believe you refer to currencies that are acceptable; would that mean currencies that are surplus, or currencies which we think are not what we would require?—A. Currencies which are acceptable for various transactions are designated by the regulations of the board; and under this measure, as I have indicated that they will be designated by regulations approved by the Governor in Council. The Board has designated two foreign currencies as acceptable, for countries that are not part of the sterling area. The Board has designated United States dollars (or currencies convertible thereto) as the acceptable currency of payment. The individual exporter can of course export for payment in local currency; let us say Brazilian milreis if he is assured that those Brazilian milreis can be converted into United States dollars. The Board itself deals only in United States dollars for that type of transaction. For trade and other transactions in the sterling area the designated currencies are sterling or Canadian dollars.

Q. Are all currencies of countries who are members of the fund acceptable?—A. When the members of the fund have assumed their full obligations under the Bretton Woods Agreement their currencies will be inter-convertible in respect of current account transactions.

Q. In the fund there are no limitations on currency transactions as between non-members?—A. The question is whether or not there are any restrictions—

Q. They are on current transactions.—A. —which members may carry out with non-members?

Q. Yes.—A. No, sir.

*By Mr. Jackman:*

Q. Might I ask Mr. Rasminsky if during this transitional period and before the Bretton Woods Agreement comes into operation the government is to designate currencies which will be acceptable to Foreign Exchange Control Board, other than our own, of course, or the United States dollar and sterling; is that correct?—A. Those are the only currencies in which the Board actually deals, in which we hold our reserves.

Q. That is one thing. What constitutes your reserves? What I am suggesting is, if a Canadian exporter sells in South America, let us say Brazil, is he allowed to accept milreis or must he, as I thought you said, convert those milreis into dollars or sterling before the transaction is approved by the Board?—A. No, Mr. Jackman. We divide the world into two parts—there is the sterling area and the non-sterling area. Brazil is in the non-sterling area. For the non-sterling area we have designated as the acceptable currency either the United States dollar or any currency that is freely convertible into United States dollars. If the milreis is freely convertible into United States dollars, the individual exporter can ship for payment in milreis; then it is up to him to make the conversion into United States dollars and sell those United States dollars to the Board because we do not hold a position in milreis, we hold a position only in United States dollars.

Q. What happens if there are certain Canadian importers who want to buy Brazilian products and could use these milreis? Why do you have to state the use of the United States dollar for half the world and sterling for the other half as an international go-between currency, if you like? Why could you not have exporters exchange their exports for imports directly from Brazil, take payment for their export in milreis and use those milreis to pay

for imports into Canada from Brazil?—A. If any individual dealing with Brazil was doing an export and import business, if he applied to the Board to do so we would authorize him to carry a milreis bank balance.

Q. The business of the bank is to facilitate the operations of a commercial house. One firm is exporting and another firm is importing, why could not they arrange between themselves, or through their bank, to use the milreis to cover the transactions? Why do you always have to have foreign currency convertible into either sterling or United States dollars? It is possible that my question refers to a type of case which does not arise very often, but why do you have these restrictions? May I ask you, are there any currencies at the present time which are not convertible into United States dollars or sterling, freely convertible, I think are the words you used?—A. Oh, yes, there are a great many, Mr. Jackman; a great many.

Q. Do any of them interfere with trade at the present time; do your restrictions interfere with trade from Canada or to Canada because the currency of the export country or the import country is not readily convertible into either of the two designated currencies?—A. No, I do not think they do. To go back to your other question, I would like to make two points. First, that the Board has not had to face the problem you have raised because we have not been informed of any inconvenience caused anyone as a result of our failure to hold our position in more than the two major currencies. Secondly, we would have to hold a position in a very large number of currencies once we departed from the principle of holding our assets either in the form of United States dollars or sterling. And there has simply been no occasion I am aware of where this limitation producing any impression on any one of interfering with any particular transactions. That point has not been raised before. There has been no occasion for us to consider leaving the simple practice of operating on the basis of two currencies.

Q. Then we will let that question go for the time being because apparently it is not practical for the purpose of my argument. If it does arise perhaps the Board—

Mr. BLACKMORE: If the member would speak up, we cannot hear all this whispering.

Mr. JACKMAN: It is not whispering, but it is not shouting.

Mr. BLACKMORE: There is no use speaking in committee if one cannot be heard.

Mr. JACKMAN: What I was saying, Mr. Blackmore—

Mr. BLACKMORE: That is much better, now we can hear you.

Mr. JACKMAN: I was saying that I would leave my question for the time being because it does not seem to be of immediate practical importance. Might I ask this question from the hon. minister representing the Minister of Finance? I think he will be able to give me a reply. Now that we have parity of exchange between Canada and the United States, is it still considered the desire of the government to go ahead with this bill?

Hon. Mr. ABBOTT: Oh, yes; I do not think there is any question about that, Mr. Chairman. The fact that parity of exchange has been re-established does not by any means eliminate the necessity of continuing the exercise of exchange control.

Mr. JACKMAN: Of course, a good many people would not like the idea of having this bill passed when there was no differential in exchange. I would think the reasons the government would have had for supporting the bill would be to a large extent modified if not entirely done away with by the disappearance of the differential discount on our own dollar.

Hon. Mr. ABBOTT: I would think the risk, let us say, of unreasonable capital movement would be just as great to-day as it ever was.

Mr. JACKMAN: But no very radical changes—

Hon. Mr. ABBOTT: In any case, to answer your question very briefly, the exchange value of the Canadian dollar in terms of American currency does not in the opinion of the government in any way alter the necessity for this measure.

Mr. BLACKMORE: The primary object of this measure, I gather from the minister's remarks, is to control trade obligations, to control the movement.

Hon. Mr. ABBOTT: No. I do not speak as an expert, of course, but I say the primary purpose of this measure is to prevent undue movement of capital.

Mr. BLACKMORE: Because of the influence on trade balances.

Hon. Mr. ABBOTT: Not necessarily; but, indirectly, perhaps.

*By Mr. Stewart:*

Q. Might I ask the witness if there has been any notable increase in American capital imports into Canada in recent months?—A. There has, of course, been a considerable inflow of American capital into Canada in recent years. The figures relating to the magnitude of the inflow, up to the end of 1945, are contained in the report of the Foreign Exchange Control Board.

Q. I was thinking particularly of American capital coming into Canada to be invested in Canadian securities.—A. Yes, I thought that was what you had in mind. The figures up to the end of 1945 are given in the report of the Foreign Exchange Control Board which was tabled in the House, in Table V on page 21. As to the figures in recent months, I should have to look that up. My impression is that in very recent months there has been some tapering off in the volume of American purchases of Canadian securities, but I will be glad to get that information for you.

Q. Thank you.

*By Mr. Quelch:*

Q. In a sessional paper which was tabled in the House, it showed that during the first 3 months of this year, \$65,000,000 in Canadian bonds had been bought by Americans.—A. Yes.

Q. And in 1945 the net purchases were \$145,000,000. I was wondering about that. That can only be done under permit issued by the Foreign Exchange Control Board?—A. Every sale of a security to a non-resident requires that.

Q. I was wondering about that, because that in itself is inflationary in Canada, is it not? I can understand why it had to be done during the war, but I cannot understand why you should encourage its being done in peace-time. Is it not inflationary? I mean, you have an increase in money in circulation without a corresponding increase in goods, do you not?—A. That does tend to take place, Mr. Quelch. The American purchases of Canadian securities lead to the sale of United States funds to the Foreign Exchange Control Board. That increases the government's overall financing requirements because those United States funds have to be financed; and to the extent that the government raises the money through the sale of securities to the banking system, the effect is, as you say, an increase in bank deposits. Whether or not that is inflationary is another matter. As I say, it does increase the volume of bank deposits and if one defines inflation as an increase in the volume of bank deposits—

Q. As compared with the amount of goods.—A. Well, if one were to define inflation as an increase in the volume of bank deposits, then that is inflation. The significant point is the one you have just mentioned, the relationship between the volume of goods and the volume of spending. If the volume of spending increases proportionately more than the volume of goods coming into the market in the same time period, then there is an upward pressure on prices and that is inflationary.

Q. That is the case to-day, is it not?—A. As regards the purchases of securities by Americans, I think one has to ask oneself: What does the Cana-

dian who sold the security do with the money? If the Canadian who sold the security goes out and spends the money on consumption goods, then that purchase of securities by Americans tends to be inflationary. If, however, the Canadian who sold the security to the American leaves the money temporarily on deposit in his bank account and ultimately invests it in some other security, then it is not inflationary in the sense in which I think you and I would use the term. It does not increase the rate of flow of purchasing power as compared with the rate of flow of goods coming into the market. My guess, for what it is worth, is that the sales of securities to Americans on the whole are not inflationary in that sense. They do increase the volume of bank deposits, but I do not think to any significant degree that they increase the volume of spending on goods.

Q. You feel that the persons who sell securities to Americans are people who are not short of money but who are looking for perhaps a higher rate of interest?—A. Broadly speaking, yes, or for a capital profit.

Q. Is it the policy of the fund as far as possible to use American dollars secured through its transactions for the purchase of Canadian securities or other securities held in America so that we will have a contra item there?—A. The policy of the exchange fund is to keep as large an amount as prudent of its resources invested in securities in which it is permitted to invest under the provisions under which it is operating.

Q. In foreign securities?—A. Yes, as it is prudent for it to do. We obviously have to keep sizable cash balances, and we hold a fair amount of gold. But apart from that, the exchange fund itself does, within the limitations under which it is operating, also invest in securities on which it will earn interest or a discount.

Q. I understood from Mr. Ilsley that it was quite a profitable transaction to sell Canadian securities to Americans and then use the proceeds to buy American securities at a higher rate of interest so that the payment of interest would be in our favour in that case?—A. Well, I am not aware of the minister having made that statement, Mr. Quelch.

Q. It was during the debate that took place when there was a certain amount of criticism of the practice of selling bonds to Americans. He said that the only loss would be interest payment to the Americans but, on the other hand, if we were buying American securities at a higher rate of interest then it would actually be in our favour because American payments to us would be higher than our payments to Americans. That is not a deliberate policy of the fund, then?—A. As I say, I am not aware of the statement to which you are referring.

Q. It was on the loan to Britain that the debate took place. I have not it here.—A. I do not think that the minister could have said that the exchange fund itself is investing in securities that yield a higher rate of payment.

Q. No, he did not say the exchange fund, although I took it from your report here that that appears to be the policy because they say at page 18: "In other cases payment must be obtained in United States dollars which are either made available to the board or are reinvested in other marketable securities payable in United States dollars."—A. I was talking previously about the exchange fund's investment policy, what we do with our own resources. Another question is what foreign exchange policies are carried out; what does the public do under Foreign Exchange Control Board rulings from time to time? One effect of this inflow of capital has been, of course, that United States funds have been available to enable Canadian debtors to pay off United States dollar obligations; and in some cases these obligations bore quite high rates of interest. The Dominion Government itself since the outbreak of war has paid off \$288,000,000 in obligations of the Dominion Government to which a United States payment feature was attached. The provinces and municipalities and corporations have also engaged in a lesser degree in various refunding operations which

in some cases have been effected in order to reduce the rate of interest and in other cases have involved the paying off of outstanding obligations. Some of the United States funds resulting from the capital inflow have been used for the purpose of paying off outstanding obligations of Canadian debtors which were payable in United States funds, and to the extent that was done, of course, there is probably just about an offset of the interest charges.

Q. On balance our sales of securities to the United States are greater than our purchases, are they not?—A. That is right. As the report of the Foreign Exchange Control Board shows the net increase in American holdings of Canadian securities over the war period after all these refundings and payoffs, and so on, was about \$480,000,000.

*By Mr. Lesage:*

Q. Would it be true to say that we lost \$150,000,000 last Friday?—A. That we lost \$150,000,000 last Friday?

Q. Ten per cent of our holdings of American currency?—A. I could not properly say the exact extent of the loss last Friday because to do so would be to disclose the position of the exchange fund account last Friday which only the minister has authority to do. However,—

*By Mr. Jackman:*

Q. But on the basis of Mr. Ilsley's statement; the other day he gave us certain figures when he introduced this resolution, and I was wondering if you would tell us what the loss would be on that basis?—A. I was proposing to do that. I am going to use figures of the position as of the end of 1945 in order to tell the committee what would have been involved in the revaluation of the assets of the Foreign Exchange Control Board had that revaluation been effected—

Q. Are these the same as Mr. Ilsley's figures?

Mr. FLEMING: Page 2616 of *Hansard*.

The CHAIRMAN: I wonder if the witness could be permitted to answer and then have supplementary questions afterwards.

Mr. BLACKMORE: I should like to have the witness finish the sentence he was on.

Hon. Mr. ABBOTT: Mr. Ilsley's figures are the 31st of December, 1945.

The WITNESS: What I was about to indicate was what the loss on the board's holdings of foreign exchange would have been on December 31, 1945, had the Canadian dollar been revalued at that time instead of July 5, 1946. At the end of 1945 the exchange fund held 353·9 million dollars' worth of gold. That is approximately 10,000,000 ounces of gold. That figure is expressed in terms of United States funds. We held 353·9 million dollars' worth of gold. We held United States dollars, which includes cash balances and investments, amounting to \$922,000,000, making a total of gold and United States dollars of 1,275·9 million in terms of United States dollars. Is that the same figure?

Mr. LESAGE: Yes, page 2616.

The WITNESS: If you look at the first figure, F.E.C.B. and Bank of Canada, 1,275·9. In addition the board held sterling balances amounting to 1·7 million pounds. That is the equivalent of approximately \$7,500,000 Canadian in the form of sterling balances. The loss on the revaluation of these holdings expressed in terms of Canadian dollars would have been as follows: On the gold a loss of 35·4 million dollars. I call it a loss, it is the revaluation of our inventory. In United States dollars 92·2 million. In pounds sterling approximately \$750,000, an aggregate of 128·4 million dollars. In addition the board had certain forward contracts outstanding at the end of the year at the prevailing rate of exchange. The board, as members of the committee are no doubt aware, offers protection

to exporters and importers on certain conditions. The board was over-bought in foreign currency. We had a net long position in United States dollars because of contracts that we had entered into to buy United States funds at the prevailing rate, and which we will have to liquidate at the contract rate notwithstanding the change.

*By Mr. Jackman:*

Q. That means you are long?—A. Yes, we had a net long position in United States dollars. Our net long position in United States dollars on the 31st of December was 109·8 million dollars, and we were also net long 1·2 million pounds. On those the loss, had revaluation been effected at the end of 1945, would be 11·5 million dollars. Adding the 11·5 loss on the forward position to the 128·4 loss on the spot position makes an aggregate loss of approximately \$140,000,000 had revaluation been effected at the end of 1945.

As at December 31, 1945, the capital of the Foreign Exchange Control Board (which was derived from an operation precisely similar to this operation but in the opposite direction, namely the revaluation of the gold stocks of the Bank of Canada from a basis of \$20.67 an ounce to a basis of \$35 an ounce under the provisions of the Exchange Fund Act of 1935), amounted to 83·9 million dollars. In addition we had a reserve fund representing the excess of F.E.C.B. revenues over expenditures since September 15, 1939, amounting to 49·3 million dollars, making a total of 133·2 million dollars.

*By Mr. Fleming:*

Q. Those are Canadian dollars?—A. Those are Canadian dollars.

Mr. JACKMAN: We are still bust, is that it?

The CHAIRMAN: They did not sell then.

The WITNESS: I might add as a matter of interest, that from September 15, 1939, to December 31, 1945, the Foreign Exchange Control Board paid to the Dominion government an aggregate of 29·8 million dollars as interest on advances. Those interest payments were charged as a cost of operating as is set out in the annexes to the report of the Foreign Exchange Control Board and were charged as a cost of operation before the figure of \$49,000,000 representing our net revenues was reached.

That is the position as regards the Foreign Exchange Control Board. In addition to the Foreign Exchange Control Board holdings, of course, the Minister of Finance holds in his own name certain amounts of sterling and United States dollars which are set out in his statement in the House, to which Mr. Jackman has referred.

*By Mr. Jackman:*

Q. May I ask one or two questions about that. Respecting the \$83·9 million profit which was derived from the revaluation of gold stocks, some years ago, did that represent gold largely taken from the private banks of Canada, from the chartered banks?—A. I should want to look that up, Mr. Jackman.

Q. I want to know whether or not the chartered banks would have suffered grievous loss owing to the exchange in the rate last week. Would they have suffered a very great loss? If so, I want to pursue the other question, as to whose gold it was, when taken over.—A. Would the chartered banks have suffered a loss?

Q. Yes, a great loss?—A. Of course the exchange dealings of the chartered banks, in fact, all their dealings in cheques and drafts, which are the large part of their dealings, are for account of the board, and the board suffers any loss that may be involved.

Q. The ordinary banks are not concerned with foreign exchange.—A. The only exchange position the Canadian branches of the chartered banks have is in their holdings of American cash.

Q. It is not substantial. It does not run into, say, \$50,000,000 for the whole system?—A. Not nearly that; it would not be nearly that.

Q. You have excluded the agencies, I presume, the New York and the London agencies of those banks. Would that alter the situation very much as regards the general picture of the Canadian chartered banks?—A. No, I do not think it would, Mr. Jackman.

Mr. FLEMING: I think it would be well to call someone from the chartered banks to say something about their experience with foreign exchange control and to clear up Mr. Jackman's point.

The CHAIRMAN: Is it the pleasure of the committee that we arrange for someone to come from the Canadian Bankers' Association? If so, I shall make the arrangements.

Mr. ISNOR: What information could they give us that would be helpful?

The CHAIRMAN: I take it, from Mr. Jackman's questioning that he wants to be assured that the chartered banks have not suffered any serious loss as a result of this move which, obviously, had to be made without notice.

Hon. Mr. ABBOTT: The decision to revalue the Canadian dollar was not a move made by the Foreign Exchange Control Board. It was a move made by the government, as a matter of government policy, and the board is not responsible for that move, as such.

Mr. QUELCH: Would it not be recommended by the board, in all probability?

Hon. Mr. ABBOTT: The move was obviously only made after discussion with the financial advisers of the government.

*By Mr. Quelch:*

Q. I take it that the board would be very much interested in it because it would be a vital question to the board.—A. The board, as such, was not consulted. As the minister has said, certain of the government's advisers, who are officials of the board, were present at certain discussions; but the board, as such, was not consulted.

*By Mr. Jackman:*

Q. May I ask the witness if the Foreign Exchange Control Board or the Bank of Canada, whichever is the proper terminology, does not set its own buying and selling rates of foreign exchange?—A. The rates are set by the minister.

Q. That is not the situation of the banks?—A. No, it is contained in the Foreign Exchange Control Order.

Hon. Mr. ABBOTT: And it is in the proposed Act.

The WITNESS: Under the Foreign Exchange Control Order, the Foreign Exchange Control Board sets the rates upon instructions received from the Minister of Finance.

*By Mr. Lesage:*

Q. Is it true to say that Canada will gain much more from this move on account of the reduced prices of imports from the United States?—A. There again I find myself in the position of being asked to comment upon government policy. The question of exchange rate is a matter of very high government policy.

Hon. Mr. ABBOTT: Perhaps I had better answer that question as to whether the people of Canada will gain more than the board will lose out of the revaluation. It is pretty evident that the government would not have decided upon this step, unless it felt that it was in the best interests of the people of Canada. It is not a question for Mr. Rasminsky to answer. It was a revaluation, but we are still holding the gold and the American dollars which we had before; and

they will still purchase the same amount of goods and services in the United States as they would before; so, it is in a sense only a bookkeeping loss, if I may so describe it.

*By Mr. Stewart:*

Q. Let us assume that last Friday a person went to one of the chartered banks with \$100 American and exchanged it for Canadian currency. Was that bank acting on behalf of the board?—A. No, sir. If the transaction was in American cash—I mean, bills or coins—then the bank was acting on its own account.

Q. This was a draft.—A. Then, the bank was acting on account of the board; so the bank would not lose.

Q. But the banks would lose on a currency transaction?—A. The banks, since the beginning of exchange control, have been acting as principals with respect to currency transactions; that is to say, the bank has been buying at the buying price, which was 10 per cent, and selling at the selling price, which was first, 11 per cent, and then, from last October, 10½ per cent. The banks themselves had the whole of the difference between the buying price and the selling price; they have been acting as principals for their own account. The amount of United States cash held by the banks is some millions of dollars. I mention that because the figure of \$50,000,000 was mentioned earlier.

Q. Is there not some offset to that? In the early days of the war, the Canadian dollar was at a discount of 10 per cent.—A. To the extent that the banks at that time were holding United States cash, that is true, yes.

Hon. Mr. ABBOTT: But the decrease was gradual; it did not drop overnight.

The WITNESS: No; it dropped fairly rapidly in August 1939 but it was not a sudden change like that of last Friday.

The CHAIRMAN: I am just wondering if the committee would care to carry the first three sections, subject to the reservation which I indicated?

*By Mr. Jackman:*

Q. Might I ask Mr. Rasminsky what significance we are to attach to that figure of \$29·8 million by way of an advance by the Dominion government to the board? May I assume that the dominion did not need to pay any interest out when it advanced this money to the board, which was artificially created money, as it were. The dominion government gave the board a credit, as it were. What significance do I attach to that \$29·8 million. What does it mean? It is found money for the government?—A. No, sir. The necessity of making advances to the board, of course, increases the government's financial requirements which were raised in the ordinary way. I cannot say whether the actual cost of the money to the government was less than \$29·8 million.

Q. It is then really doubtful whether or not the government can consider that as a contribution to offset some of the losses?—A. Yes, that is right. I certainly did not add it in to the \$133·2 million. I mentioned it as a matter of interest.

Q. What were you paying on the average on advances from the government to you, roughly—half of one or 3 per cent?—A. No, we were paying 1 per cent until April 30, 1945, three-quarters of one per cent from that date to May 1, 1946, and five-eighths of one per cent since that time.

Q. I suggest the average borrowing rate by the government was substantially in excess of these rates you mentioned; the advances to the Bank of Canada or the Foreign Exchange Control Board were at some substantial cost to the government, even offsetting the \$29·8 million. In place of being a contribution from the board to the government it was a fairly expensive operation for the government?—A. That involves a consideration of the character of the advances. These advances are backed by gold and United States funds and sterling. In

a sense they are the most liquid secured type of advance, and these rates are more or less proportional to the rates the government has been paying from time to time on its short-term borrowing.

The CHAIRMAN: Treasury notes.

The WITNESS: The rate is, of course, higher than rate on the treasury bills.

Mr. JACKMAN: Perhaps you and I could agree with regard to 29·8.

The WITNESS: I did not mean that 29·8 should be counted as an offset.

*By Mr. Blackmore:*

Q. I would like to get something cleared up. Mr. Rasminsky said that the matter of controlling the use of our foreign exchange had been taken care of by the Foreign Exchange Conservation Act; did I understand that?—A. What I said, Mr. Blackmore, was that when it became necessary to impose certain restrictions on imports for exchange reasons that was done through an Act of parliament in 1940, namely, the War Exchange Conservation Act.

Q. Is that Act still in force?—A. No, sir, it has been repealed.

Q. Is it contemplated that there will be an Act corresponding to that?

Hon. Mr. ABBOTT: I am afraid, Mr. Blackmore, that Mr. Rasminsky cannot answer that question. Obviously that is a matter of government policy.

*By Mr. Blackmore:*

Q. I wanted to know whether we could get any information on it because it has a considerable bearing on this Act, in my judgment. Now, I understood that there was no restraint on funds that might be used for purchasing goods from the United States all through the war, except through the Foreign Exchange Conservation Act—there was no restraint exercised at all?—A. No.

Q. What I would like to know is how you classify the money which was advanced to people for travelling in the United States? Now, the effect of money spent on a visit to the United States is almost identical to the effect of money spent on goods in the United States, is it not?—A. Yes, that was an exchange—

Q. How do you classify money like that? Is not that foreign exchange advanced for current account?—A. Yes, sir, I call it travel expenditures.

Q. It is current?—A. Yes.

Hon. Mr. ABBOTT: If I may interject, that was the only restriction on what we might describe as current account transactions, that was the one exception made. It was decided it was not desirable to interfere with the ordinary flow of goods and services other than the prohibitions contained in the War Exchange Conservation Act. You may recall about 1942 was it?

The WITNESS: They were put on in 1940.

Hon. Mr. ABBOTT: In 1940 restrictions were put on travel by Canadians in the United States as a further means of conserving foreign exchange, U.S. exchange.

The WITNESS: At that time the situation was fairly critical.

Hon. Mr. ABBOTT: And that exception, in addition to the restrictions on capital movements, was imposed.

Mr. BLACKMORE: And in addition to the restrictions exercised by the Foreign Exchange Conservation Act?

Hon. Mr. ABBOTT: In addition to the restrictions exercised by the War Exchange Conservation Act which prohibited the import of certain commodities from the United States and imposed a tax on others as a deterrent.

Mr. BLACKMORE: What we are doing now, unless I do not get the picture—and I must confess that perhaps I do not—is apparently endeavouring to go into peace time with no provision for controlling foreign exchange on current

account and with no measure corresponding to the Foreign Exchange Conservation Act. What I am wondering is: suppose now that if it were to be found that merely controlling capital transactions would not prevent an adverse trade balance between Canada and the United States, is any provision being made whatsoever for meeting that situation?

The WITNESS: I think the answer to that is that the ordinary legislative process would be at hand. If the government found it necessary to restrict imports from the United States because we are running short of American funds it would have the same courses of action open to it as were open to it and as it took in 1940, namely, to introduce a measure into parliament to provide for the restrictions that were necessary. That is, as regards the import of goods, this Act ensures—if I may say so—against bureaucratic control over the import of goods; it ensures that if it becomes necessary to take that measure it will be the legislature which takes it. Now, as regards travel restrictions, if the government found it necessary in the future to impose travel restrictions it would be open to it to instruct the Foreign Exchange Control Board to refrain from selling United States funds for travel purposes. That use can be made of this measure in the future, but the ordinary processes of government remain intact; the government can do anything in addition to this measure as it could do without the measure.

*By Mr. Blackmore:*

Q. You conceive that the government would be free, notwithstanding the Bretton Woods agreement, to do that?

Mr. QUELCH: You could only do it under article 7 and if American currency became scarce in the fund; otherwise, you cannot place any import restrictions.

The WITNESS: Any exchange restrictions? Yes.

Mr. QUELCH: Any restrictions. You cannot place any restrictions on goods of another nation unless that nation's currency is scarce in the fund.

The WITNESS: I do not think that the articles of agreement of the fund refer to other than foreign exchange restrictions; I do not think they refer to quota arrangements, for example, or to embargoes which are exclusively confined to imports.

Mr. QUELCH: It definitely does under the United States proposal for an expansion of trade.

The WITNESS: That is something else again. But referring to the fund—the fund agreement—the only thing covered there is exchange restrictions.

Mr. BLACKMORE: Such restraints were undoubtedly envisaged by Mr. Morgenthau in his speech to the delegates. Now, Mr. Chairman, I do not want to get too far into this matter. Will Mr. Rasminsky be back? If he will, I will not pursue this matter further at this meeting.

The CHAIRMAN: Yes, assuredly.

Mr. BLACKMORE: I will not pursue this matter at the moment as it is a most important subject.

Mr. FLEMING: I was going to ask you, Mr. Chairman, if we had carried sections 1, 2 and 3, because I had some questions I wanted to ask about 2 and 3.

The CHAIRMAN: Then, shall we carry 1 and 2?

Mr. FLEMING: I was going to suggest that we might adjourn.

The CHAIRMAN: Shall the preamble carry?

Carried.

Shall section 1 carry?

Carried.

Shall section 2 carry?

Mr. FLEMING: I move we adjourn. I have some questions I want to ask on section 2.

The CHAIRMAN: Then the preamble and section 1 are carried. We will adjourn. I have a report as to the other committees that are sitting to-morrow, and with caucuses in the morning and two very large committees sitting in the afternoon I do not think it would be wise to attempt to meet tomorrow afternoon, but Thursday afternoon looks reasonably clear; shall we meet at four o'clock?

Mr. FLEMING: There is the Radio committee on Thursday and Friday of this week.

The CHAIRMAN: In the morning on Thursday we have Veterans Affairs, the Indian Act, Marine and Fisheries and War Expenditures.

Mr. FLEMING: Make it two o'clock on Thursday afternoon. I will settle for two o'clock.

The CHAIRMAN: Is the committee agreeable to our sitting at two o'clock on Thursday afternoon.

Mr. BLACKMORE: There is no use in trying to work ourselves to death.

Mr. QUELCH: We sit until one o'clock on Thursday, that is another thing.

Mr. BLACKMORE: If you sit at two o'clock you will sit until what time?

The CHAIRMAN: Three o'clock.

Mr. QUELCH: The other committees sit until one and that does not give us very much time.

Hon. Mr. ABBOTT: It is going to take some little time to go through this thing by items. The trouble is that there are a lot of other committees sitting that are important. I do not know whether the committee would care to sit in the evenings, that is perhaps asking too much.

The CHAIRMAN: How would it be if we sit on Thursday evening?

Mr. JACKMAN: I would like to say this, I think it is a serious affront to parliament that we should be sitting while the budget debate is on in the House.

Hon. Mr. ABBOTT: As far as that is concerned, I may say, as Mr. Jackman knows, that at times the budget debate includes many subjects which have no direct connection with the budget, so I do not think we should necessarily suspend sittings of the banking and commerce committee, until the budget debate is completed.

The CHAIRMAN: May I make a suggestion then that will perhaps be satisfactory to all concerned. It is only natural that members who have been sitting taking an active part in other committees would want more notice and more opportunity of signing off those other committees. Shall we then not have any further meetings of this committee until next week and serve notice now that we will have a lot of meetings next week.

Mr. ISNOR: We will be faced with a bad situation next week.

The CHAIRMAN: Those in favour of Thursday night sitting please indicate?

Carried.

We will meet Thursday night at eight o'clock.

Mr. FLEMING: Do you want a motion in connection with the calling of a witness from the Bankers' Association?

The CHAIRMAN: No.

The committee adjourned at 6.00 o'clock p.m. to meet again Thursday, July 11, 1946, at 8.00 o'clock p.m.









SESSION 1946

HOUSE OF COMMONS

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STANDING COMMITTEE

ON

# BANKING AND COMMERCE

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BILL 195, FOREIGN EXCHANGE CONTROL

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

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THURSDAY, JULY 11, 1946

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WITNESSES

Mr. L. Rasminsky, C.B.E., Chairman (Alternate) Foreign Exchange Control Board.

Mr. R. H. Tarr, Secretary, Foreign Exchange Control Board.

OTTAWA

EDMOND CLOUTIER

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1946



## MINUTES OF PROCEEDINGS

THURSDAY, July 11, 1946.

The Standing Committee on Banking and Commerce met at 8.00 p.m., the Chairman, Mr. Cleaver, presiding.

*Members present:* Messrs. Arsenault, Black (*Cumberland*), Blackmore, Cleaver, Cote (*St. John's-Iberville-Naperville*), Dechene, Fleming, Fraser, Fulton, Hackett, Harkness, Hazen, Irvine, Isnor, Jackman, Lesage, Low, Macdonnell (*Muskoka-Ontario*), Manross, Marier, Marquis, Mayhew, Michaud, Quelch, Rinfret, Ross (*Souris*), Stewart (*Winnipeg North*), Strum (Mrs.).

*In attendance:* Hon. D. C. Abbott, representing the Minister of Finance, Mr. R. W. Mayhew, M.P., Parliamentary Assistant to the Minister of Finance, Mr. Louis Rasminsky, President (Alternate), and Mr. R. H. Tarr, Secretary, Foreign Exchange Control Board.

The Committee resumed consideration of Bill 195, An Act respecting the Control of the Acquisition and Disposition of Foreign Currency and the Control of Transactions involving Foreign Currency or Non-Residents.

Mr. Rasminsky and Mr. Tarr answered questions on certain provisions of the Bill and more specifically on Clause 2 (Interpretation).

At 10.00 p.m., on motion of Mr. Jackman, the Committee adjourned to meet again on Monday, July 15, at 11.00 a.m.

R. ARSENAULT,  
*Clerk of the Committee.*



## MINUTES OF EVIDENCE

HOUSE OF COMMONS

July 11, 1946.

The Standing Committee on Banking and Commerce met this day at 8 o'clock p.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: Gentlemen, we had reached section 2 of the bill and Mr. Fleming had some questions he wished to ask on that section.

**Mr. L. Rasminsky, Chairman (Alternate), Foreign Exchange Control Board, called.**

Mr. FLEMING: On section 2, in regard to the definitions, there are some of those which tie in with sections of the Act that I think call for some comment or some explanation. In (j) we have the definition of "goods" as meaning "any property other than real or immovable property" and so on. Then when you come down to the definition of property in (s) "property means every kind of real or personal, movable or immovable property." I do not see the necessity at all of bringing real estate into this Act. If you look at sections 25 and 26, you will see in section 25 that no person shall, unless he is possessed of a permit, export any property from Canada. Property means real or personal property. And under section 26 no person shall, except with a permit, import any property into Canada. Surely it is an absurdity to have a definition of property that means that the statute says that you shall not import real estate into Canada or you shall not export real estate from Canada. Surely that is going it little too far, Mr. Chairman.

The CHAIRMAN: I will make a note of that and take it up with Justice.

The WITNESS: I wonder whether you will allow Mr. Tarr to comment on that?

Mr. R. H. TARR: Obviously real estate cannot be exported or imported but there are other sections in the Act where real estate is covered. For example, in section 31 dealing with transfers of property, real estate is covered. It is under the provision in section 25 that "no person shall, except in accordance with a permit, export any property from Canada," that the export of currency and securities is controlled as well as the export of goods. The later provisions of section 25 only apply to goods, but in subsection (1) it is intended to cover a good deal more than the export of goods.

Mr. FLEMING: Surely it is an absurdity in one section or the other to have a ban on the export or import of real estate. There has got to be some change made either in the definition or in the operative section of the Act.

The CHAIRMAN: Of course, it will not do any harm to have a ban on that; and if real estate is referred to, as it appears to be in section 31, there must be a definition wide enough to include real estate within the meaning of property.

Mr. FLEMING: Let us have a definition of real property and let us have another definition of personal property, and let section 31 apply to real property.

The CHAIRMAN: Section 31 would not be wide enough. I had that in mind, but it would not be wide enough to be applied to real property only.

Mr. FLEMING: Let us have a definition of personal property and a definition of real property, and let section 31 apply to both; and let sections 25 and 26 apply only to personal property.

Hon. Mr. ABBOTT: We are not really defining goods, are we, Mr. Fleming? And we are not defining property in the section.

The CHAIRMAN: "Goods" is defined under (j).

Hon. Mr. ABBOTT: Yes.

The CHAIRMAN: But not personal property.

Hon. Mr. ABBOTT: No. Paragraph (j) is an excluding definition. It excludes.

Mr. ISNOR: Paragraph (s) defines.

The CHAIRMAN: I will make a note of that. Thank you, Mr. Fleming.

Mr. FLEMING: The point briefly is this, that the definition of property has got to be broken down into real estate and personal property. Otherwise we are going to be legislating an absurdity when we come to sections 25 and 26.

Hon. Mr. ABBOTT: I think, as Mr. Cleaver says, we might refer the matter to Justice. I do not think we are really legislating an absurdity. "Export any property from Canada" is perfectly good English, and obviously it is physically impossible to export real estate, which is simply a type of property which is not susceptible of export. But in a defining section, it is surely proper to say that property includes every kind of real or personal, movable or immovable property, if in another section of your Act you are imposing certain prohibitions on dealing in real property belonging to a non-resident. I would not think offhand that it would be an absurdity to use the word "property" in section 25 as referring to property which can be exported and in another section the word "property" used with respect to real property. I would not think you would need to define real property and personal property in this Act. It would seem to me you could leave the distinction between those two types of property to the law in Ontario, if it is property in Ontario, or to the law in Quebec if it is property in Quebec; because the laws as to the distinction between the two types of property differ in those two provinces. So I am just thinking aloud, but it would seem to me that it is perfectly consistent to draft section 25 in the way in which it is drafted.

Mr. TARR: All the definitions are, of course, "unless the context otherwise requires".

Hon. Mr. ABBOTT: That is right.

Mr. FLEMING: I do not want to labour the point. I think it would be much better if there were a separate definition of real and personal property and we dealt with it as required in the subsequent sections.

The CHAIRMAN: I am not a good enough draftsman to express an opinion on that, but I will gladly take it up with Justice.

Mr. FULTON: Mr. Chairman, I do not want to be cantankerous, but could the members speak up so we could hear them down here.

The CHAIRMAN: We are now on section 2.

Mr. HAZEN: Could we have some explanation of subsection (c) "Canadian currency" means lawful money of Canada, excluding any coins of the United Kingdom or the United States, and also any bank note payable in lawful money of Canada." Why are those words "excluding any coins of the United Kingdom

or the United States" in there? Why not exclude the coins of Australia, New Zealand and every other country?

Mr. TARR: United Kingdom and United States gold coins are legal tender in Canada under the Canadian Currency Act.

Mr. HAZEN: Gold coins?

Mr. TARR: Yes. That is the reason for their exclusion here.

Mr. STEWART: I wonder if Mr. Tarr could give me an interpretation of paragraph (x)? It is rather intriguing. Mrs. Strum might be interested. That is why I asked.

Mr. TARR: Under the Interpretation Act it is provided that words used in the masculine include the feminine. When the Interpretation Act was drafted they omitted to include a similar provision that words in the masculine included the neuter; and therefore the Department of Justice feels that it is necessary to put it in specifically.

Mr. STEWART: I understand.

Mr. HAZEN: Could we have some explanation of subsection (2) about lawful money of Newfoundland?

The CHAIRMAN: Is subsection 1 of section 2 carried?

Mr. JACKMAN: On that point which Mr. Fleming raised a little while ago, one reason for control is that in every day transactions we find we are running up against a law which we did not know about.

Mr. MACDONNELL: Might I suggest that the members at the far end of the room move inside of the circle so we could hear better.

Mr. JACKMAN: I was just giving an example of a small case which seemed to me to be an unwitting infringement of this section respecting the definition of property. Let us take the case which arises very frequently. Because of the division of families between Canada and the United States, some members of the family may have established themselves in the United States. Let us say that the grandmother in Canada at Christmas time gives a small amount of securities, from \$100 to \$1,000 to each of her grandchildren, half of them being in Canada and half in the United States. During the war years, at any rate, you did not have permission to export those securities to another member of the family in the United States, but probably a member of the family in Canada would be appointed as trustees of the securities on behalf of the American relations. That would seem to be a clear infringement of section 31. I would like to have a comment at least by those who are in a position to answer, because I think it is illustrative of the difficulty of a control measure like this which interferes with the lives of Canadians.

The CHAIRMAN: I wonder if you would be good enough to wait until we come to section 31 in the ordinary way. We have decided in this committee to take the bill up section by section.

Mr. TARR: Section 31 does not apply to securities, Mr. Jackman. According to subsection 2 of section 31, securities are excluded.

Mr. JACKMAN: Well, take the case of other property then, such as jewellery or other property of value?

Mr. TARR: Securities are covered, I think, in section 27.

Mr. JACKMAN: What about other forms of value; suppose it be some of the family jewels?

Mr. TARR: Jewellery would come under the provisions dealing with the export of goods.

Mr. JACKMAN: But there is no monetary return for it.

Mr. TARR: Yes, but a permit is necessary for every export of goods.

The CHAIRMAN: Mr. Jackman refers to a transfer in trust in Canada.

Mr. JACKMAN: During the war a person in Canada is appointed as trustee and thereby unwittingly he or she is breaking the law. How are people to know about all those controls? It is very difficult. It gets down to the very reason or worthwhileness of an Act of this nature. Do we want an Act of this nature? I am only pointing out the difficulties.

The CHAIRMAN: Shall subsection 1 of section 2 carry?

*By Mr. Jackman:*

Q. What is the reason for giving a discretion to the board? It says: "Unless otherwise provided by regulation or determination of the board, deemed to be a non-resident?" I am reading from line 25.—A. The whole of this draft statute is written in terms of residence; all residents of Canada regardless of nationality are subject to the provisions of this measure. The reason it is necessary to give the board the power to determine the residential status of individuals for purposes of this measure is that if the board did not have that power, then it would be open to any individual in Canada who wished to remove himself and his property from the jurisdiction of this measure to leave Canada and change his residence in fact. This provision is necessary in order to ensure that the change in the location of an individual will not affect the obligations to which he is subject under this measure.

Q. You mean, it has the effect of making Canadians prisoners of Canada; that is the effect of this section.—A. It has the effect of making this measure effective. If it is the desire to have an exchange control measure, then it is necessary to include provisions to ensure that individuals cannot remove themselves by their own act from the jurisdiction of the measure.

Q. In other words, it virtually imprisons Canadians.

The CHAIRMAN: It deals only with the property of Canadians.

The WITNESS: Mr. Jackman, under this measure, there is no control of the movement of persons. This measure does not provide that a resident of Canada who wishes to leave Canada must get a permit from the Foreign Exchange Control Board. A permit is needed for the export of currency, securities, or other property; but no permit is required for an individual who merely wishes to leave Canada. If the determination of residence were not made in this way, then an individual could leave Canada without a permit from the Foreign Exchange Control Board and automatically become a non-resident. His assets would therefore be non-resident assets and would then be alienated from the Canadian economy.

Mr. JACKMAN: Let us say that an American comes over here to act as manager of a branch plant. He remains in Canada for thirty years, all during his working life and then when he retires he seeks to remove himself back to his original hearth in the United States. All his fortune, whatever it is, has been accumulated in Canada in Canadian dollars. Now he is not permitted to take his subsistence back with him except as you may determine.

Mr. MICHAUD: What is wrong with that?

The WITNESS: There is a question of law and a question of policy involved. An American in the position you have described, who has lived in Canada for thirty years and has accumulated his fortune in the form of Canada securities and is a resident of Canada for the purpose of this measure, is subject to all the restrictions and enjoys all the advantages that any other resident of Canada has under this measure. That is the question of law. The question of fact or the question of policy is how the Foreign Exchange Control Board would deal with an application from such a person for a change in his residential status, from the status of a resident of Canada to the status of a resident of the United

States. And that question of policy would be determined by the government in the light of considerations from time to time. I may say on that particular point, the policy has been, if I may use this expression, in inverted commas, a liberal policy towards applications and towards persons in the position which you describe.

*By Mr. Jackman:*

Q. The American who contemplates coming here with his peculiar technical skill or whatever he may wish to bring here is a little more interested in the law of the land than in the kind of breakfast the Foreign Exchange Control Board has had that morning.

Hon. Mr. ABBOTT: He would have to come here before September 15, 1939, before he would be affected by this Act. Subsection "U" reads: "a person who, on or after the 15th September, 1939, was, or is ordinarily resident in Canada..." That means that he knows what he is coming to, if he comes here.

Mr. JACKMAN: My suggestion is that he won't come.

Mr. STEWART: We have Canadians who can do the job anyway.

Mr. JACKMAN: Unless we thought we could get some Scotch importations.

Mr. STEWART: I think anybody who goes to a country to make his fortune out of that country should take out citizenship in that country.

Mr. FULTON: What about the case of a corporation, under paragraph 2? I am thinking of Thomas Cook and Sons who are not incorporated in Canada. I could not be sure of that. I imagine there are numbers of international companies or organizations who do not come under the description of "corporation". If they have not got their head office in Canada then by virtue of subsection 2 they are not resident. That seems to me to mean they might escape the operations of the Act. Will you give us the benefit of some advice on that?

Mr. TARR: I think subsection 5 of that section covers the point you have in mind.

Mr. FULTON: Of which section?

Mr. TARR: Subsection 5 of section 2.

Where any person who is a non-resident has, in Canada, a business or undertaking or a branch or agency of any business or undertaking of any kind whatsoever in which he is engaged, the person is, unless otherwise provided by regulation or determination of the board, deemed to be a resident with respect to the operation or transactions of the said business or undertaking of the said branch or agency.

Mr. MACDONNELL: I was not able to be present at the last meeting and it may be that the question I am going to ask has been dealt with. If so you may tell me and it need not be answered again. I might interject one remark before I ask that question. I cannot say how horrified I am to observe that gentlemen in this room who I am sure believe themselves to be liberals with a small "l", and using that word in its broad sense, are accepting a measure which, whether or not it is necessary, is a nationalistic measure of the most extreme kind apparently with complete equanimity. I must say that it illustrates to me the very extraordinary world we have got into because I do submit that some of them ten years ago would have been horrified when expressing their views on such a question.

The question I want to ask is this. Tell me if it has been covered. I observed in reading the evidence of Mr. Rasminsky he outlined three courses of maintaining exchange stabilization. One was the gold standard. The second was the equalization method and the third was exchange control. If the question has not been put and answered what I want to ask is whether he is satisfied

that, let us say in our relations with the United States and this country where we have so many things in common, it is quite out of the question for us in our dealings with them to maintain the position which is desired by means of exchange equalization which would relieve us of so many restrictions and restraints we are going to have now, or whether it is their considered judgment and it is not worth questioning in this committee that the full whole hog of exchange control is the only thing that will do the job. I should like to have that considered, but if you say that it was considered at the last meeting I will not take up the time again.

The CHAIRMAN: It was in part but I think since you were not able to be here—

Mr. MACDONNELL: Do not do it for me.

Mr. JACKMAN: A lot of us were not here. Just to put Mr. Macdonnell's question in another form I wonder if Mr. Rasminsky would tell us what a stabilization fund can do along the line of foreign exchange control that this Act seeks to achieve, and secondly what can the board do that cannot be done by a stabilization fund?

The WITNESS: I will address myself first to Mr. Macdonnell's question as to whether I am satisfied that an exchange control measure rather than an exchange stabilization account measure is, in fact, the appropriate course.

*By Mr. Macdonnell:*

Q. The only one.—A. The only one. I should like to answer the question as I understood it to be asked, whether this is the appropriate course for Canada to carry out at the present time. My answer to that question is "yes". As I understand it, there are three main reasons for the decision to introduce this measure. In the first place the world is in a period of extreme uncertainty.

*By Mr. Hackett:*

Q. What?—A. Extreme uncertainty in the monetary and financial relations among countries. Various steps have been taken, with which Mr. Macdonnell and other members of the committee are fully familiar, to try to stabilize the situation in the future. The main steps I have in mind are the Anglo-Canadian credit agreement, the Anglo-American credit negotiations and the Bretton Woods institutions. It is, of course, the hope of everyone that these steps will serve the purpose that they are designed to serve, but I think that no degree of optimism can conceal the fact that a large part of the world at the present time is in a very strained and very precarious position so far as its international economic and financial relations are concerned. We do not know what to expect. In that condition it seems that while it is right to hope for the best it is prudent to prepare for something less than the best.

That is reason number one. It relates to the immediate period that we can foresee. The difficulties of this immediate period have been recognized in all the constructive measures of international economic cooperation that have so far been planned. For example, the Bretton Woods agreement provides, as you know, for a transitional period of uncertain duration during which the members will be relieved at their request of their full obligations under the articles of agreement of the international monetary fund. The uncertain nature of the period that lies immediately ahead is also recognized in the Anglo-Canadian credit agreement which provides that no interest payments shall be made on the credit until the year 1951, and that principal repayments shall begin only in the year 1951. So that my statement that we are entering a period of uncertainty in the financial arrangements among nations is one that has a certain amount of backing in the acts of governments which have already been taken.

That is the first reason, and it relates, as I have said, to the immediate transitional period. The second reason is not so restricted in its application. Canada is in a very unusual economic situation. We are what could be described, and has been described, as a mature debtor country. The extent of our indebtedness in monetary terms is not as great as that of the United Kingdom, but we are very indebted internationally on capital account. Non-residents of Canada are holding quite large amounts of Canadian securities and large amounts of cash balances in Canada.

*By Mr. Macdonnell:*

Q. What are our net balances?—A. The net balances of our international indebtedness?

Q. Yes.—A. Some figures which throw light on that are given in the report which the Foreign Exchange Control Board made to the minister and which he tabled in the House a month or so ago. Have you a copy of that report Mr. Macdonnell? I have some extra copies here with me.

Q. Yes.—A. If you will look at page 7, you will see that in 1939 the gross foreign investment in Canada was approximately 7,000 million dollars, and the table gives a breakdown of the form that that foreign investment took. That figure is gross. There are upsetting amounts in the form of Canadian assets held abroad. I have not the figures with me of the extent of Canadian assets held abroad, but they would reduce the 7,000 million dollar figure by at least 1,000 million dollars, and possibly something more. These figures represent book values in 1939. The present extent of foreign investment in Canada has been affected by two main factors; first, by the changes which have taken place in the course of the war in foreign purchases of Canadian securities and Canadian acquisition of foreign assets; and secondly, by the change in the valuations, the changes in the price of securities that have taken place in the course of the war. So far as the former process is concerned, details are given in table 5 of the main changes in our debtor position viz a viz the United States dollar area to the end of 1945 which was that on balance there was broadly speaking no change in our debtor position with the United States. In the table on page 30 of the F.E.C.B. report is given similar information for our balance of indebtedness with the United Kingdom. It shows that our balance of indebtedness to the United Kingdom was improved to the extent of about \$1,500 million dollars; so, disregarding the changes in valuations which have occurred, the net foreign investment as it existed in 1939 would have been reduced by an amount of approximately a billion and a half dollars.

*By Mr. Harkness:*

Q. Were other investments in France and the low countries taken into account in that figure?—A. They were not.

Q. They would be reduced by that much more?—A. That is right. Some amount of these loans have been extended by the end of 1935, but they are not included in these tables.

Q. How much would that reduce it by?—A. I am not able to give at the moment the amount of credit that had actually been utilized up to the end of 1935.

*By Mr. Hackett:*

Q. You would not consider them as active assets?—A. Oh yes, they would be carried as an active asset.

*By Mr. Harkness:*

Q. I mean in 1945?—A. The significant figure I think for the purpose of this discussion would be the amounts of the credits which have actually been

used rather than the amounts which have been authorized. I am sorry I haven't the figure up to the end of 1945, but I have it up to March 31, 1946, an additional quarter. That shows that the amounts used were \$67,000,000; which is, of course, an offsetting asset.

Mr. HARKNESS: That is very material.

Mr. MACDONNELL: That is surprising, I thought it was more than that.

The WITNESS: You probably have in mind, Mr. Macdonnell, the total amount of credit authorized.

*By Mr. Macdonnell:*

Q. Oh, pardon me; I see what you mean, that was the amount of the authorized loan taken up?—A. The amount of credit authorized for France was \$245,000,000. If I may add this; the extent of the authorizations, excluding the credit to the United Kingdom, the billion and a quarter loan, was \$577,500,000 at the time this table was made up.

Q. Mr. Rasminsky, have you finished your answer?—A. No, I have not, Mr. Macdonnell. I had begun by saying that there were three main reasons in my opinion why this measure was necessary. The first is in relation to the uncertainty of the transitional period. The second relates to the exposed position of Canada on capital account, which I have just illustrated in these figures.

Q. Would you let me ask you a question right there?—A. Certainly.

Q. These amounts appear to be invested both from the U.K. and the U.S. largely in government credits of public utilities. For instance, in the United States there is \$1,241 million in government securities, and a large amount in industrial or commercial. Here is a phrase which I have never understood: very little of it is what you would call "hot" money. It is a form of investment money, is it not?—A. It depends on which you mean by form of invested money. The investment has taken the form in part of American holdings of Canadian securities, which has shown a certain volatility in the past. The American investor has on occasion, and the present is one of the occasions, taken a very rosy view of the Canadian situation and has been a very ready and willing purchaser of Canadian securities. That rosy view has resulted in the very substantial sale of Canadian securities by some investors in the past couple of years. There have also been occasions in the recent past when the American investor has taken a less rosy view of Canadian securities. In the course of the last war, for example, there have been occasions when Canadian government securities have sold in New York at a price which placed a 7 per cent yield on those securities.

Q. That would depend on the prospects of the war?—A. It depended, Mr. Macdonnell, on the American investor's appraisal of the prospect of the war.

Q. Was it chiefly before they came into the war?—A. Yes, before the United States came into the war.

Q. In other words, it would be fair to say it had to do with war prospects, not ordinary business consideration?—A. I think that would be one factor, Mr. Macdonnell; but I do not think it would be the only factor. The other factors related more to the tendency on the part of the American investors to move as a body, to be affected by a relatively small factor, in the sense that relatively small stimuli produce relatively large reactions; and I see no reason for assuming that the present view which American investors take of Canadian securities will necessarily continue into the indefinite future.

*By Mr. Hackett:*

Q. Might I ask if it is not true that at the time the American had a mean view of our securities he likewise had a mean view of his own?—A. Perfectly true, yes. But there is no reason why we should be as concerned about his view

of American securities as we are concerned about his view of Canadian securities. His view of Canadian securities may have quite serious repercussions on our own domestic economic affairs in ways I would like to outline now.

*By Mr. Jackman:*

Q. May I ask what significance you would say attaches to this last statement of yours, because the increased yield on Canadian securities from a 4 to 5 cent spread to a 7 per cent yield took place under a period of foreign exchange control. What idea are we to draw from the statement you have been making?

—A. I think it would be correct to draw the inference from that that if in this period there had been no exchange control measure and American investors had been free to liquidate their securities in the Canadian market, that that would have had a disorganizing effect on our security markets and it would have withdrawn from Canadian use large amounts of foreign exchange that were necessary for the prosecution of the war.

Q. During the war I do not think anyone had any quarrel with exchange controls; I think we all concede that.

Mr. MACDONNELL: I wish to be very careful not to seem to be monopolizing the time of the committee, but I would like to ask one further question and say one word to preface my question to indicate the line on which I am anxious to hear Mr. Rasminsky expound the situation—

The CHAIRMAN: I wonder if it would not be wise to allow Mr. Rasminsky to finish the third reason?

The WITNESS: If I might add this to complete the second reason: I think that a country like Canada which is in an exposed position economically, whose economic interests are largely bound up with international trade—I think that a country in this position is restricting its own liberty of action in the field of economic policy if it allows a situation to come about where economic policies that it might otherwise think appropriate to meet a given situation are inhibited because of the fear that non-residents will liquidate large amounts of holdings of securities on the domestic market if those policies are carried out, or that residents will withdraw their capital from Canada and place it abroad if those policies are carried out. If there is one lesson that seems to be clear from the whole international monetary experience of the inter-war period I would say it is that hot money movements, that the international flight of capital from one country to another serves no social purpose, exercises nothing but a disturbing effect on the pursuit of rational economic policies; and it is in order to prevent such hot money movement that an exchange control measure is needed.

Mr. HACKETT: Would you define hot money before you go on with your third reason?

Mr. IRVINE: That is a slang phrase which does not mean anything.

Mr. HACKETT: It meant something to Mr. Rasminsky.

Mr. QUELCH: What did Mr. Macdonnell mean by it?

Mr. MACDONNELL: I used it with some hesitancy, and I was on the point of asking Mr. Rasminsky if he would define it when Mr. Hackett asked him. I have heard it used, but I never wanted to be asked to define it.

The WITNESS: I would attempt to define hot money in this way, Mr. Hackett: hot money is wealth in the form of bank deposits or in the form of marketable securities, which has no economic connection with the place in which it happens to be, and which is in that place either for security because it wants to get away from the place it was before it went to that place or in the hope of achieving a speculative profit.

*By Mr. Macdonnell:*

Q. May I ask whether it has ever been a serious factor to Canada, and to what extent?—A. I think, Mr. Macdonnell, that it would have been a serious factor at the outbreak of war for the reasons I gave. There have been other periods when the fluctuations of the Canadian exchange have, I think, been influenced by movements—

Q. Is that a situation which can be well recognized by experts and which could be guarded against at a special time by special action being taken then?—

A. Well, sir, the very nature of hot money is that it is prepared to move quickly.

Q. You caught it in 1939.—A. We caught most of it, yes, sir.

*By Mr. Hackett:*

Q. That was in going away, but it came here because the opportunity developed in the mines and possibly in other fields which was deemed to be greater here than in the place in which the money was before.—A. I do not know that I would agree that the inflow of capital into Canada in the last few years can be fairly described as hot money; I do not think I would agree with that.

Mr. QUELCH: I was very surprised to hear the member for Muskoka take a somewhat critical attitude toward the establishment of the Foreign Exchange Control Board because, after all, he and his party were quite enthusiastic about supporting the Bretton Woods agreement last year, and I think now that we are members of that agreement we shall have to do everything in our power to see that we can carry out the obligations we have taken on under that agreement. We have agreed to the convertibility of currency. In order to be able to carry out that it is essential that we should have the absolute control of the export of capital. In other words, we might find ourselves unable to carry it out. I would like to ask Mr. Rasminsky—

The CHAIRMAN: I wonder if Mr. Rasminsky would be permitted to complete his third point.

Mr. IRVINE: Yes, leave him alone until he gets through with his statement.

The WITNESS: The third reason is this, Mr. Macdonnell, that during the period ahead it is certain that the United Kingdom and the other countries of the sterling area will be operating exchange controls. In the course of the war it has been found that a high degree of co-operation in technical matters can be achieved through co-operation among the various exchange control authorities. It might be possible to work out different techniques of achieving that co-operation. I do not know. I do not think in any case that this reason is of the same importance as the others.

Mr. QUELCH: Mr. Chairman, I could give an example of hot money. Sometimes when there is a change in provincial government there is an example of it. For instance, when Alberta first elected the Social Credit government, a lot of people did not realize the kind of government they were getting and they were trying to get their money out of Alberta as fast as they could and send it to the United States. That was hot money. They did not realize at the time the fine type of government they were putting in. They are not afraid any more; but they were for a while.

Mr. BLACKMORE: It was almost molten. The money was too hot.

The CHAIRMAN: Would you fear the same thing would happen when the Social Credit took control here in Canada?

Mr. QUELCH: Perhaps under the C.C.F. if they got into another province.

Mr. BLACKMORE: We are supporting exchange control just as a precautionary measure.

*By Mr. Macdonnell:*

Q. If I am not in anybody's way, let me ask Mr. Raminsky one further question. A minute ago you used the word "appropriate" and I afterwards shifted and I would now like to ask you if you would consider it from the point of view of what is necessary. Could I make this preliminary observation, though. You said a moment ago there might be different techniques with different countries. I was going to ask you this question. I take it, so far as I am concerned and perhaps as far as many others in this room are concerned, our objective is to work to the time when these things can be done away with. That is what we would like. We do not like this kind of world we are in, but we are in it. Is it possible that the way to work towards gradual elimination is to say, "Well, now, with this country we do not need to have this any more; we can abandon it; we can be free"? In other words, I could understand that with Greece or Yugoslavia an exchange control is a very different matter—at least it would seem to the layman to be a very different matter—from what it would be with the United States. I wanted specifically to ask you if it would be conceivable that in the case of the United States you might operate an exchange stabilization fund whereas with some of the other countries where the economic situation is so different, you might have to have complete exchange control?—A. No sir, I do not think that it is. Under a system of exchange control one can of course have fewer restrictions in transactions with certain countries than with others. For example, at the present time there are no restrictions whatever on any payments or any transfers from Canada to the United Kingdom or to other parts of the sterling area. Anyone wishing to purchase sterling can purchase any amount of sterling that he wants to do from his bank without completing form F or without any formalities. The reason for that of course is that the United Kingdom and the rest of the sterling area has an adverse balance with Canada. They tend to be short of Canadian dollars. Nothing gives us greater pleasure than to see transfers of Canadian dollars to the sterling area or purchases of sterling, which comes to the same thing. There is therefore no point in any formalities or in our asking what the money is to be used for, whether it is a current account transaction or whether it is a capital transaction. So far as the United States is concerned, it is the United States which is the large owner of Canadian securities. If there were any attempt on the part of Canadians to export their capital from Canada—which there is not at the present time—it would, as things stand now, in all probability be towards the United States rather than towards any other part of the world that they would attempt to export their capital. It is therefore particularly with the United States that it would be inappropriate for us to attempt to operate a pure exchange stabilization fund which did not look to the underlying transaction giving rise to the demand for foreign exchange.

*By Mr. Abbott:*

Q. If I may ask a question there, Mr. Rasminsky, is it correct to say that an exchange stabilization account does not permit of a qualitative examination of exchange transactions between the two countries?—A. Yes, sir. That is the essential difference between an exchange stabilization account and a system of exchange control.

*By Mr. Macdonnell:*

Q. That is why I wish so much that we could have an exchange stabilization fund and I imagine we all would. I should like to pursue that a little further. You have used the word "inappropriate" and then you indicated the possible danger of, as you said a little while ago, living in a dangerous world. I imagine if we are going to wait for security we will wait a long time. But the other thing I want to ask is how far would you give way to the point that

was made a little while ago that this régulation that we now have will work two ways? It will make Americans, I should think, very unwilling to come here. Notwithstanding what was said a while ago, I think surely we do not object to them coming here if they are of the right type.—A. Well, Mr. Macdonnell, if you will be good enough to look at table V of the Foreign Exchange Control Board report, page 21, you will see that between the establishment of foreign exchange control and the end of 1945, United States investors bought, net, \$484,000,000 worth of Canadian securities.

Q. Yes?—A. That fact would appear to me to indicate that the existence of an exchange control system did not deter American capital from coming to Canada.

Q. You would not call that a large amount for Americans to buy here, would you?

*By Mr. Jackman:*

Q. I think the minister pointed out several reasons, such as the purchase of wheat and war goods, to account for the very large American investment through these years, did he not?—A. I do not see in what way the purchase of wheat could give rise to increased holdings by Americans of Canadian securities.

Q. Not of securities.

*By Mr. Quelch:*

Q. Mr. Rasminsky, in view of the fact that in the past for a number of years we have had a certain amount of difficulty in maintaining the balance of payments to the United States, is it wise really to expand our debt to the United States any further? Should we not try to reduce it rather than expand it? We have had that difficulty of maintaining the balance of payments in the past.—A. Mr. Quelch, we do not give the securities away. We get paid for them.

Q. Yes. Nevertheless, that increases our interest payment to the United States.—A. It does have that effect of increasing our interest payments to the United States to the extent of the difference between the coupon rate on the securities that Americans buy and the amounts that we earn ourselves on United States funds when we invest them.

Q. Yes, if we invest them in Canadian securities; but suppose that money is used for the development of Canada, that does not increase our holdings of American funds to pay interest to Americans?—A. When the exchange fund acquires United States funds from an American investor who wants to buy Canadian securities, the exchange fund may invest this money in short-term securities of the United States government on which it earns a modest rate of interest. I am conceding your point that the effect of the inflow of capital is, in fact, to add somewhat to the interest payments Canada makes to the United States. What I am saying is that the gross amount has to be reduced by the amount of interest we earn on our investments in United States funds that we get. In terms of the magnitudes involved in our international payments, the amounts added to our interest payments are not very large, and we do have the cash on hand. The existence of the large cash reserves at the end of 1945 and at the present time has, I think, given Canada greater freedom of action in her choice of economic policy than she would have had if her cash reserves were very low.

Q. We should not need American capital in this country now; we have plenty of Canadian capital to develop our country; isn't that correct?—A. I do not think that I can really give expert evidence on that, Mr. Quelch.

Q. Consider the tremendous development during the war in Canada with, comparatively speaking, a small amount of American capital that came in to help that development; if we did that in war time, we should be able in peace time to do the same thing.

Mr. HACKETT: The state did that.

Mr. STEWART: It has been stated that granted a national income of \$10 billions, we in Canada should save one and one-half billion dollars in a year. Wouldn't that be sufficient for all capital requirements, excluding the possibility of war?

The CHAIRMAN: It is very interesting gentlemen, but I wonder if it is relevant?

*By Mr. Quelch:*

Q. Having in mind the tremendous development that took place in this country during the war, surely we ought to be able to carry out a large development in this country without the importation of any capital.—A. There are certain developments, with which you are no doubt familiar, which have taken place with the aid of imported capital. During the war no bonus was paid to the foreign investor to participate in these developments. The opportunities were open to all. I do not know whether it would not be proper to draw the inference that if those developments had not taken place with the assistance of the imported capital, they would not otherwise have taken place.

Q. You mean, to bring equipment to this country. We are now in a position where we have a large amount of capital in the form of equipment and we should be able to go ahead from there.

Mr. BLACKMORE: We should be able to trade goods for any foreign capital that we need.

*By Mr. Quelch:*

Q. You would not say that the general policy should be to try to encourage more and more capital towards this country. Surely we must have reached a stage when it is no longer necessary.—A. I do not think, Mr. Quelch, that it would be quite fair to say that, at the present time, any special steps are being taken to encourage the importation of capital from abroad. No special steps so far as I am aware are being taken to encourage the importation of capital from abroad. At the present time, if an American chooses to buy a Canadian obligation, a bond or a debenture, he is not given any assurance that he will subsequently be able to sell that obligation in Canada.

*By Mr. Jackman:*

Q. And export his funds?—A. And export his funds, or even sell the securities in Canada and leave his funds in Canada. The Board for a period registered new purchases of securities by non-residents who brought funds into the country to buy them, and gave assurance if the non-residents subsequently wished to liquidate his investments, he could sell the securities in Canada and withdraw the funds through the unofficial market. At no time have we given any assurance at all that the non-resident wishing to sell his security in Canada, would be able to go to a Canadian bank and obtain United States funds with the proceeds of the liquidation.

Q. But there has never been a restriction on an American or a foreigner selling the investment in Canada and getting the proceeds in Canada, if he could find a buyer.—A. Since from the beginning of the Exchange Control Board a permit has been required for non-residents wishing to sell securities in Canada; and in respect of what we call pre-zero holdings, that is, the pre-exchange control, holdings permits have not been given except to residents of the sterling area. The holder of Canadian securities has been free to withdraw the securities physically from Canada; and interest payments and dividend payments on securities have been regarded as a claim on our foreign exchange. We have

converted into United States funds the Canadian dollar interest or dividend payments made to Americans. But so far as the pre-1939 holdings of securities are concerned, they have not been eligible for sale in Canada except, of course, in respect to switch transactions. A non-resident holding one security has been free to sell it for cash provided that he simultaneously reinvested the proceeds in another security.

*By Mr. Macdonnell:*

Q. But he could not get the cash?—A. No, he could not get the cash.—But for a period the Foreign Exchange Control Board rulings provided that non-residents who wished to acquire Canadian securities with new funds could, if they subsequently decided to do so, sell those securities in Canada and withdraw the proceeds through the unofficial market. There was no claim against our official reserve in respect of the securities but the proceeds could be withdrawn through the unofficial exchange market. For the past while the board has not registered new purchases of Canadian obligations by non-residents so that any non-resident buying Canadian bonds or debentures at the present time does so with the knowledge that if he wants to realize cash for that security he will have to sell it outside of the country. He will have to sell it to another non-resident.

Q. I see on page 18 of the report of the Foreign Exchange Control Board it says:—

Since January, 1946, however, the board has not accepted registrations for subsequent sale of non-resident purchases of Canadian bonds and debentures as distinct from stocks and shares.

A. That is right.

Q. Has that had any effect on the purchase of Canadian securities by non-residents? Has that slowed them up?—A. To be able to answer that accurately one would have to know what they would have been had that ruling not been instituted. Mr. Stewart asked me on Tuesday what the present trend in non-resident purchases of securities had been. I have figures which add only one month to the figures that have already been placed on Hansard and I thought if you would permit me to wait for a day or two I would be able to bring figures for two additional months. But to answer the question the best I can at the present time, non-resident purchases of securities in the second quarter of this year were very substantially less than they were in the first quarter of this year.

*By Mr. Jackman:*

Q. That was the purpose of the order, was it not?—A. Of the January ruling?

Q. In order to stop Americans buying Canadian securities?—A. It was felt—

Q. It was to have a deterrent effect and it had a deterrent effect?—A. It was felt at the beginning of this year that insofar as this ruling represented a specific encouragement to Americans to buy outstanding Canadian bonds and debentures that that encouragement should be withdrawn, yes.

*By Mr. Hackett:*

Q. That resulted, did it not, from the fact that interest rates were lower in the United States than here, and the American coming here with his dollar, which gave him \$1.10, was able to get a higher return upon his investment in Canada than at home?—A. Yes. I think there were a number of factors involved.

Q. Incidentally it did interfere with our managed economy?—A. The inflow of capital from the United States?

Q. Yes.

*By Mr. Jackman:*

Q. The putting down of our interest rates and the upping of our bonds?—

A. Of course, the inflow of capital from the United States would tend to put down interest rates in Canada and would tend to raise the price of bonds.

Q. It interfered with our managed economy?—A. If you want to you can take that interpretation from the facts.

Q. Interest rates on Canadian bonds were no longer in the control of the government and its agencies because the inflow of American capital was so great that it forced the price of our bonds in the first two weeks up to January 15th up about five points, and that trend was too strong according to the ideas of those who run the managed economy, so they put a deterrent order into effect on this American capital coming into Canada?—A. I should like to place on record that I do not agree with that interpretation of the facts.

Q. But it is a fact American capital coming over here in great amount very early in the year did have the effect of increasing the price of our bonds substantially?—A. I do not think that it is possible to attribute the rise in Canadian bond prices at the beginning of the year entirely to American purchases. The volume of American buying of bonds in relation to the total magnitudes involved in transactions in the bond market—

Mr. QUELCH: Canadian securities can only be sold to non-residents under a permit?

Hon. Mr. ABBOTT: Let him finish his answer.

The WITNESS: I say the volume of American purchases of Canadian securities in relation to the magnitude of the transactions—

Mr. JACKMAN: Of course, it is always the sub-marginal unit—

The CHAIRMAN: Let him finish, please.

Hon. Mr. ABBOTT: Finish your sentence.

Mr. JACKMAN: When Mr. Rasminsky pauses for his well chosen language—

Hon. Mr. ABBOTT: You like to put it in his mouth.

Mr. JACKMAN: I sometimes think he has finished his answer. Finish your answer.

The WITNESS: I think the sense of my answer is probably clear.

Hon. Mr. ABBOTT: What was it, that the volume of American purchases of Canadian securities taken into account with the total volume was not such as to unduly affect the Canadian market? Is that it?

The WITNESS: Yes.

*By Mr. Jackman:*

Q. And may I see if you will agree with me that it is always the marginal unit which determines the price, and the additional amount coming from the United States possibly had a substantial effect on the price of Canadian securities.

Mr. FULTON: Is that a question?

Mr. IRVINE: No, it is not a question. It is a statement.

Mr. JACKMAN: In view of that remark I will put the question again and I will ask for an answer.

*By Mr. Jackman:*

Q. I ask Mr. Rasminsky if it is a fact that it is the marginal unit which determines the price, and the fact there was some, if not a substantial amount, of American money coming over to Canada for investment in Canadian government securities in the early part of 1946 may have been—I will qualify it by

“may”—a force behind the rise?—A. I would answer that question in this way, that any purchases of securities or any purchases of anything tend to increase its price. I think it is quite an open question as to what constitutes the marginal unit.

Q. May I say then that the volume of bonds trading in Canada washed out pretty well because it was domestic. There were buyers and sellers in Canada, but the influx of new money into that bond market would have a far more direct effect on the price than did the transactions between Canadians?—A. I really am not qualified to give evidence on security markets, but perhaps I should point out that the inflow of capital leads to additions to Canada's holdings of foreign exchange, in this case in the form of United States dollars. These additions to Canada's holdings of foreign exchange require to be financed. The Canadian government must find Canadian dollars to pay for the United States dollars which it takes in. The inflow of capital, therefore, increases the government's overall financial requirements. It increases the amount of money which the government has to borrow. Therefore, the American purchasers of securities in Canada do not have the gross effect on security prices that you might expect, because while they increase the demand for Canadian securities for the reasons I have just given, there results from that an increase in the supply of Canadian securities.

*By Mr. Macdonnell:*

Q. Mr. Rasminsky, might I go back to the question you answered a little time ago. I asked you whether you thought we could have a different kind of arrangement with one country than we had with another. What I really wanted to ask you was whether we could have exchange control with one country, and an exchange stabilization fund with another and you said, no. Nevertheless, you did suggest that there might be different arrangements between one country and another. You pointed to the fact that we may freely send money to the sterling area now; and a moment ago you indicated there might be a different arrangement as between one country and another. Now, I was able to follow you to this point; if there may be arrangements which are different then why would you limit that difference? Why would you say that in one country you could have exchange stabilization working as between the United States and Canada and not with others? Again, let me ask you this question? I take it from what you have been saying that if the Canadian government is quite satisfied with having the present rate of exchange, that it can be maintained without difficulty, would I be correct in saying, if they were satisfied with that, that they would not need exchange control as between here and the United States? Would that be a correct statement?—A. I do not think that would be a correct inference to draw from the statement the minister made in the House in introducing this measure.

Q. I am not asking you that; I am merely asking you a question. Would that be a correct statement or not? In making that statement would I be right or wrong?—A. I thought the question was related to the policy of the government.

Q. No, I do not think I referred to that at all.—A. I am sorry, would you mind putting your question again? I haven't quite got it.

Q. I asked you some time ago whether it was possible that we might have exchange control with certain countries and not with others—we might have a different method with others. I think you said no. Nevertheless, I think you indicated that there might be a difference in degree. If we are ever going to work out this thing, surely what will happen is that somebody will say: clear up with this country, or that country. Would that be a fair statement that if we are ever to work out of it that will happen some day? Now, why is it not

possible in principle that we should have a different arrangement with the United States from what we have, let us say, with Greece? Let us assume Greece. We have to have a control exchange there. Is it not possible that with the United States we should have exchange stabilization, which I conceive to be a much simpler thing? If I am wrong, no doubt you will correct me. Now, here is my final question. I asked a moment ago if, in fact, you were satisfied as an exchange expert that the present rate with the United States was reasonably certain of being maintained under the ordinary risks we all suffer in this lower world? If you are satisfied of that, then we can all be prepared to say that as between this country and the United States we do not need exchange control; or, is there some other reason? And there is one last thing I want to ask you. My understanding is that at the present time we have a million and a half of United States assets of our own; is that right?—A. That is right, sir; that was the position at the time of which I spoke. That may not be true of the position as of to-day.

Q. I know it is not true as of to-day, but it was so as at a certain date, was it not?—A. Yes.

Q. And, further, I think you pointed out that that amount had been increased, I think you said through purchases from somewhere . . .—A. I referred to increases in American holdings of Canadian securities.

Q. To an increase in the past few years of \$484,000,000; in other words, less than a third of what we have now. Again, I am speaking as a layman, I am not an exchange expert; but it would seem to me that humanly speaking we have a good kitty, and there would be no terrible danger of our balance of exchange going suddenly wrong. I know it is a rather involved thing that I have asked you, because I did not understand you on this point. I do not yet follow why we have to have this exchange control with the United States. To me it seems to be a return to the middle ages. Maybe we have to have it, but let me say that I for one want as little of it as possible, and I think I am right in saying that every member in this room wants as little of it as possible. That is why I asked you why we cannot have a different arrangement with the United States from what we have with Greece, and I understood you to say because there were differences. Now, is there too great a difference?—A. On the first question, whether it would be possible to have exchange control with certain countries—and Mr. Macdonnell has taken Greece as an illustration—and an exchange stabilization arrangement with the United States with whom we are in closer contact, with whom our relations are more intimate; in my opinion, the answer to that question is no, for two reasons. One is a reason of principle and the other is a reason of fact. The reason of principle is, if you admit that exchange control is needed at all, then you cannot set up a system which will leave a back door for the evasion of your exchange control regulations. If you had exchange control with Greece and not with the United States then there would be nothing in the world to prevent anyone who wished to carry out a transaction with Greece which was contrary to the exchange control regulations to carry it out by going to the United States. One could have any sort of transaction that one wants. Let us assume the situation was such that it was the policy of the government to prevent Canadians from acquiring Greek securities. Well, if you have an exchange control arrangement in effect with Greece you can prevent Canadians from applying through Canadian banks for drachmas for the purpose of investment in Greek securities; but, if you are not operating an exchange control with the United States then Canadians can acquire United States dollars for that purpose through their exchange equalization fund; they could acquire drachmas through New York.

Q. Is Greece in the sterling area?—A. No, it is not.

Q. How many countries in Europe are there who are not?—A. You mean, on the continent?

Q. Let us say among the countries with whom we have present business relations?—A. On the continent of Europe, Mr. Macdonnell, none are in the sterling area.

Mr. HACKETT: Isn't Sweden?

The WITNESS: No, sir. The sterling area comprises the British commonwealth and Empire (except Canada and Newfoundland), Egypt and the Anglo-Egyptian Soudan, Iceland, the Faroe Islands and Iraq.

Mr. MICHAUD: May I ask from what page you are reading?

The WITNESS: That is page 19 of the FECB report.

*By Mr. Macdonnell:*

Q. I have often seen it stated that Scandinavian countries have a very close relation to the sterling block. Is there any thing to support the general belief that there is a very close relationship, one which makes them to a certain extent de facto in it?—A. No sir. The Scandinavian countries have quite a close financial arrangement with the United Kingdom. Sweden has a monetary agreement with the United Kingdom, and I believe there is an agreement between Denmark and the United Kingdom. Norway holds a large sterling balance which has resulted in large measure from the fact that the Norwegians had their ships insured by British firms, and as they were lost during the course of the war they piled up large sterling balances.

Q. Supposing that by some miracle it happened that we could persuade Mr. Abbott and Mr. Cleaver that exchange control was dead, that we didn't want it, have you got any in between course which you could suggest, short of this extreme measure?—A. No, sir, none that would achieve the object which I presume the government has in mind in bringing forward this measure. Might I answer your first question now?—As I said in my answer, I had two reasons. One of them was concerned with the question of evasion; if you need to restrict exchange transactions for the purpose of controlling the export of capital you must scrutinize all exchange transactions. You must know what is happening in the exchange market. And the second is the practical answer, that exchange control is needed by Canada, not in relation to Greece, Sweden, or Norway, but exchange control is needed by Canada in relation to the United States.

Mr. HACKETT: And it has to apply to other countries to make it work there.

The WITNESS: That is right, sir. But Mr. Macdonnell, if I were to answer your other question I would have to repeat a certain amount of the evidence which I gave earlier.

Mr. MACDONNELL: I will not raise it then, don't bother.

*By Mr. Fulton:*

Q. If this has already been covered, I shall try to find it. The point I have in mind relates slightly to the policies of the Trade and Commerce Department, but if you can explain it it will help me to understand the operations of this board. Now, there is a parity between United States and Canadian money. What is the purpose and what are the general principles which will guide the board in determining the amounts and classes of goods in the United States which Canadians can purchase in American exchange in order to acquire those goods?—A. That question or a similar question was asked yesterday, and if you do not mind I would like to repeat the answer I gave yesterday, because it is important, I think, that a certain misconception should be cleared up. The Foreign Exchange Control Board has nothing whatever to do with the types or the quantities of goods which are imported into Canada or exported from Canada. The Foreign Exchange Control Board is a purely administrative

body; all that we do in relation to imports and exports of goods is (a) to ensure that where an export does take place from Canada that Canada receives the appropriate amount of foreign exchange and receives it in the right currency; and (b) to ensure that if a payment is made abroad which is alleged to be for the purpose of importing goods into Canada that the import does in fact come into Canada and the payment is made to an amount no greater than the fair value of the goods and in the appropriate currency.

Q. Do not you or your agencies issue permits for the acquisition of foreign exchange?—A. Yes, sir, we do. There are in connection with the export of goods two forms that are involved. One is a carbon copy of customs form B-13, which has to be completed by the exporter for customs purposes anyway, and it is not an extra piece of paper that he has to complete for the Foreign Exchange Control Board.

Mr. BLACKMORE: You mean an exporter from Canada?

The WITNESS: Yes.

*By Mr. Fulton:*

Q. I am concerned with importing from the United States. As I understand you have to buy American currency in order to buy goods there and get them into Canada?—A. Yes. I will take the import side. Anyone importing a commodity from the United States into Canada completes the extra copy of the customs entry which becomes that carbon copy which is called Foreign Exchange Control Board form E; and when he buys exchange which, of course, he would have to do in the absence of a foreign exchange control system anyway, he completes Foreign Exchange Control Board form F at the bank, which is the evidence that he has bought foreign exchange for a certain purpose. A copy of form E is then sent by the Customs Department at the port of—Mr. Tarr tells me it is actually given to the importer—and in the ordinary case if he is not operating under a special permit of the board which authorizes him to conduct a foreign currency bank account he takes that import entry, that form E to the bank where it serves as evidence that he has in fact imported the goods into Canada, and the bank sells the appropriate amount of foreign exchange. If he wants to prepay for the import he goes to his bank and the bank has authority within certain limits to allow him to prepay the account. The bank will retain for itself a copy of the form F, and it has the duty of trying to match that form F against the copy of the import entry to make sure that the goods have come in representing a counter value to the exchange which has been sold to the importer.

The CHAIRMAN: To sum it up, there is no interference with normal transactions.

*By Mr. Fulton:*

Q. The board authorizes the transaction. What influences you in saying whether you will authorize it or not?—A. If you look at section 26, subsection (2), I think the answer is given there.

Hon. Mr. ABBOTT: Mr. Fulton, this was all explained yesterday.

Mr. FULTON: If it was, that is all right.

Hon. Mr. ABBOTT: I think Mr. Rasminsky was right in emphasizing this matter again today because it is an important point for members of the committee to bear in mind that the board by statute is not allowed to refuse the import or export of goods if they are of fair value.

Mrs. STRUM: Would it be correct to say that the board acts as a clearing house rather than as a licensing bureau? You clear rather than initiate.

Hon. Mr. ABBOTT: I used the expression that these sections requiring permits for import and export being issued by the board were to enable the board to scrutinize import and export transactions so that they were in fact bona fide import and export transactions with respect to goods.

Mr. FULTON: Do I take it that the position is that if I wanted to buy a car in Detroit the Foreign Exchange Control Board, on the face of it, would be able to say, "We do not consider that you should be allowed to do it, or that you could buy it?"

The WITNESS: As far as we are concerned you can buy as many automobiles as you like; we have nothing whatever to say about it. You could buy ten cars in Detroit if you liked.

The CHAIRMAN: The subsection means exactly what it says.

*By Mr. Harkness:*

Q. It does not put you in the position of determining whether one can buy a car in New York? You may decide the car is not of a fair value and refuse to issue the permit, and from the inclusion of that fair value clause in section 26 you can in fact tell people whether they may or may not purchase any goods abroad?—A. All we are concerned with there is to ensure that the payment that is made for the goods which are to be imported is fair value for the goods.

Q. May I ask how you are going to determine whether it is a fair value or not?—A. This question arises in point of fact practically entirely in transactions between parties who are not dealing at arm's length; that is to say it arises in transactions between a Canadian subsidiary and an American parent company or between two related companies.

Q. Let us take the specific case of the car. Cars are very difficult to obtain in Canada, and say that I am in extreme need of one and I go to Detroit and I am willing to pay \$3,000 for a car which is worth only \$1,000; then I assume that you have the power to step in or would step in and prevent me from purchasing that car and refuse to give me the exchange to purchase it and bring it to this country?

The CHAIRMAN: I think it is rather a safeguard against transactions which are not bona fide.

The WITNESS: Yes, if you pay \$3,000 to an unrelated person in the United States that is presumably a bona fide commercial transaction which establishes the fair value of the car.

Mr. HARKNESS: I do not care what I pay for any article in the United States so long as—

The CHAIRMAN: It is a bona fide transaction.

Mr. HARKNESS: I can prove I paid it.

Hon. Mr. ABBOTT: Yes. I think if you entered into a fake transaction with a United States resident in order in effect to export capital to the United States, the transaction would be disallowed. It would have to be bona fide.

The WITNESS: As long as it is a bona fide transaction and you are paying for the article that you get, the board would not concern itself with that transaction.

*By Mr. Quelch:*

Q. Is it not true that you would exercise a certain amount of control over the current transaction to this extent. You are not interested in the type of goods that are bought but you are interested in the origin of those goods. You would not be prepared to provide American dollars to buy goods in America that had originated in the sterling area. You would insist that they buy sterling in order to buy in the sterling area rather than buy in America. To that extent you would control current transactions?—A. That is right. That is governed by the appropriate section.

*By Mr. Macdonnell:*

Q. How far do you delve into the transaction? That is a very interesting point. Where would you find that out?—A. Whether the goods were sterling area goods?

Q. Yes.—A. The customs form which has to be completed by the importer at the time of entry provides a space in which the importer has to state the origin of the goods. In many cases there is put in the Canadian customs tariff a rate depending on the origin of the goods; the effect of the British Imperial preference; so that we are put on notice in that way.

Q. That has to be scrutinized by you?—A. Yes. That is right.

The CHAIRMAN: Mr. Fleming, you have been trying to ask a question, I believe.

*By Mr. Fleming:*

Q. Yes. There is, I take it, considerable co-operation between the Department of National Revenue and the Foreign Exchange Control Board with regard to the permits you issue?—A. They are agents of the board for the issuing of permits, yes.

Q. To what extent is the Foreign Exchange Control Board participating in this charge that was imposed last week, or perhaps this week, by the Department of National Revenue on customs clearances on American goods coming in here and the provisions of United States money to pay for them?—A. I am sorry, I do not know what the charge is.

Q. You know that a couple of orders have been issued within the last week to the customs inspectors; that is, since the Canadian dollar was put on a par with the United States dollar last Friday?—A. Yes.

Q. To levy a charge on these invoices on American goods coming in here. I was informed that the Foreign Exchange Control Board was sharing in the charge.—A. Well, the only contact that we have had with the customs department in connection with the change in rates is a contact in fact between the Bank of Canada and the customs department. The Bank of Canada supplies the customs department with a schedule of exchange rates which are used in the conversion of foreign currency invoices into Canadian dollars for purposes of valuation for duty purposes.

Q. But I am informed—

The CHAIRMAN: Perhaps, Mr. Fleming if you would give your particulars it would be better. Mr. Rasminsky does not understand the question.

*By Mr. Fleming:*

Q. I will give the particulars I have got. The first of these rulings was made last Friday authorizing the acceptance of invoices for goods from the United States in United States currency at par. That was followed by a second ruling on the 9th of July, effective that day, requiring United States invoices to be increased by one-half of 1 per cent to establish the Canadian value for duty purposes. I am told, and this is what I should like to be corrected on if my understanding is wrong, that that charge of one-half of 1 per cent is being divided between the Bank of Canada and the Foreign Exchange Control Board as a banking service charge?—A. Oh, I see the point. Evidently what has happened is this. The customs department, upon receiving news of the change in rate, instructed their customs agents that for the purpose of customs valuation, the Canadian dollar should be taken one for one with American dollars. Then they realized that the board's selling rate for American dollars was not \$1 but it was \$1 and half a cent, and they have evidently decided to base their customs valuations on the selling rate in Canada for foreign exchange. That is the cost to the importer of foreign exchange, the rate he has to pay his bank when he

buys foreign exchange. They have in fact done that in the past. Before this change in rate, the valuations for customs purposes was based on the board's selling rate of \$1.10½ Canadian equals \$1 American, and not on the board's buying rate. Evidently what has happened is that they first decided to base the valuation on the board's buying rate which is \$1 and then changed their minds and decided to base it on the board's selling rate which is \$1 and half a cent.

Q. Then it does not purport in any sense to be a service charge?

The CHAIRMAN: No. It is simply an increase in the amount of tariff collected.

Hon. Mr. ABBOTT: For duty purposes apparently.

The WITNESS: Of course, it is the case that there is that spread of one-half of 1 per cent between the board's buying rate for foreign exchange and the selling rate.

The CHAIRMAN: Members of the committee who were present yesterday have been quite patient and we have gone over a lot of the same ground a second time. I wonder if we could get on.

Mr. IRVINE: Where are we, Mr. Chairman.—at (p) or (q)?

Mr. CHAIRMAN: We are now, I hope, going ahead. We are now on section 2, subsection (2).

*By Mr. Harkness:*

Q. Before we go back to that, I wonder if I might have from Mr. Rasminsky an answer to a question which I asked a few minutes ago? It was this. Is that fair value clause not, in effect, a sort of blanket clause which gives to the board complete discretion or control over what any citizen of Canada may import into the country?—A. The question is whether the fair value clause gives the board complete discretion regarding the price that can be paid for—

Q. Really in regard to what any citizen of Canada may import; in other words, in my opinion, as it reads it is a sort of blanket clause enabling the board to determine at their discretion whether anything is at fair market value or not, and therefore whether I may import it or not, or whether anyone else may import it.—A. May I draw your attention, Mr. Harkness, to section 38, subsection (1) which reads:—

If any person is dissatisfied with a determination of the Board under this Act, as to the fair value of any property, debt, obligation, claim or services, he may, within ninety days after the said determination, serve notice of appeal on the Board and file a copy of the notice of appeal in the office of the Registrar of the Exchequer Court of Canada.

(2) An appeal taken under this section shall be heard and determined in a summary manner by the Exchequer Court of Canada and the court shall have power to make all necessary rules for the conduct of appeals under this section.

If you take the hypothesis which I hope is very unlikely, that the Board would be arbitrary and unreasonable in the exercise of the administrative powers given to it in section 36 to which you have referred, there is an appeal to the court.

Mr. HARKNESS: In any event, the whole thing would be delayed for 90 days before an appeal.

Hon. Mr. ABBOTT: Yes, but it is a pretty effective check on the arbitrary exercise of the discretion.

Mr. HARKNESS: It is a sort of blanket authority given to the board to determine what may be imported into the country.

The WITNESS: May I make clear the necessity of a clause of that sort. Unless the Board has authority to concern itself with fair value, then, it would be open to someone who wished to export capital from Canada to import, say, a Buick automobile worth \$3,000 and to say that that Buick automobile is worth \$300,000; and in that case it is, I think, quite clear that an export of capital would have taken place from Canada.

The CHAIRMAN: How would you safeguard against that, Mr. Harkness, other than by licensing?

*By Mr. Hackett:*

Q. When a non-commercial debt is owing in the United States, is the payment of it considered to be an export of capital still, and prohibited?—A. A non-commercial debt contracted before the period of the exchange control?

Q. Yes.—A. The Board has at no time placed any restrictions on the payment of bona fide debts due to non-residents in the currency in which they were due at the time they fell due, no restriction of any sort.

Q. And what about debts incurred since?—A. As to debts incurred since with the approval of the Board, they can be paid in accordance with the terms of the contract.

The CHAIRMAN: Shall section 2 carry?

Carried.

Now what about section 3?

Mr. HAZEN: Is this Act to be retroactive?

Hon. Mr. ABBOTT: This bill is to be an enactment of what is now in force by order of the Board, by order and regulation of the Board under the War Measures Act and the Transitional Powers Act; and I think the intention is that this Act shall come into force at a date to be fixed by proclamation, according to section 74.

Mr. HAZEN: Under the definition of "resident", it says "a person who on or after the 15th day of September, 1939"?

Hon. Mr. ABBOTT: That was the date, Mr. Hazen.

Mr. HAZEN: That would make it retroactive.

Hon. Mr. ABBOTT: According to the Foreign Exchange Control order that was the date fixed. What we will do is we will wipe out that order and this will take its place. The reason it is being enacted by statute is that the order will lapse in the ordinary course, shortly after the commencement of the next session of parliament.

Mr. HAZEN: Well, then, why isn't the definition of "resident" made to be from the time when the Act was proclaimed and not your September 15, 1939?

Hon. Mr. ABBOTT: If that were done it would allow non-residents who had capital invested in Canada prior to the establishment of the exchange control to take those investments out, and that is something that we cannot as yet permit. Isn't that right?

Mr. MACDONNELL: What is the explanation of the reference to Newfoundland and to Newfoundland currency in subsection 2 of section 2.

The CHAIRMAN: Is subsection 1 carried?

Carried.

Now we are on subsection 2.

Mr. JACKMAN: Most of the questions arising out of this Act have to do with the generality of the Act and not with particular sections.

Hon. Mr. ABBOTT: This is an interpretation section.

Mr. TARR: The answer to Mr. Macdonnell's question is that Newfoundland is served exclusively by Canadian banks and the currency of New-

foundland is Canadian dollars; exchange control was introduced in Newfoundland at the same time as it was introduced here in Canada; the two controls operate along parallel lines. As long as Newfoundland has the same currency as Canada, that situation presumably will continue and Newfoundland currency and securities will be regarded as being in the same position as Canadian dollars and securities for exchange control purposes.

Mr. JACKMAN: Is it our intention to close at ten o'clock?

The CHAIRMAN: If the committee is willing. It was my intention to carry on until eleven and thereby make more progress.

Mr. JACKMAN: Well, it is a pretty hot evening. I move we adjourn at ten o'clock.

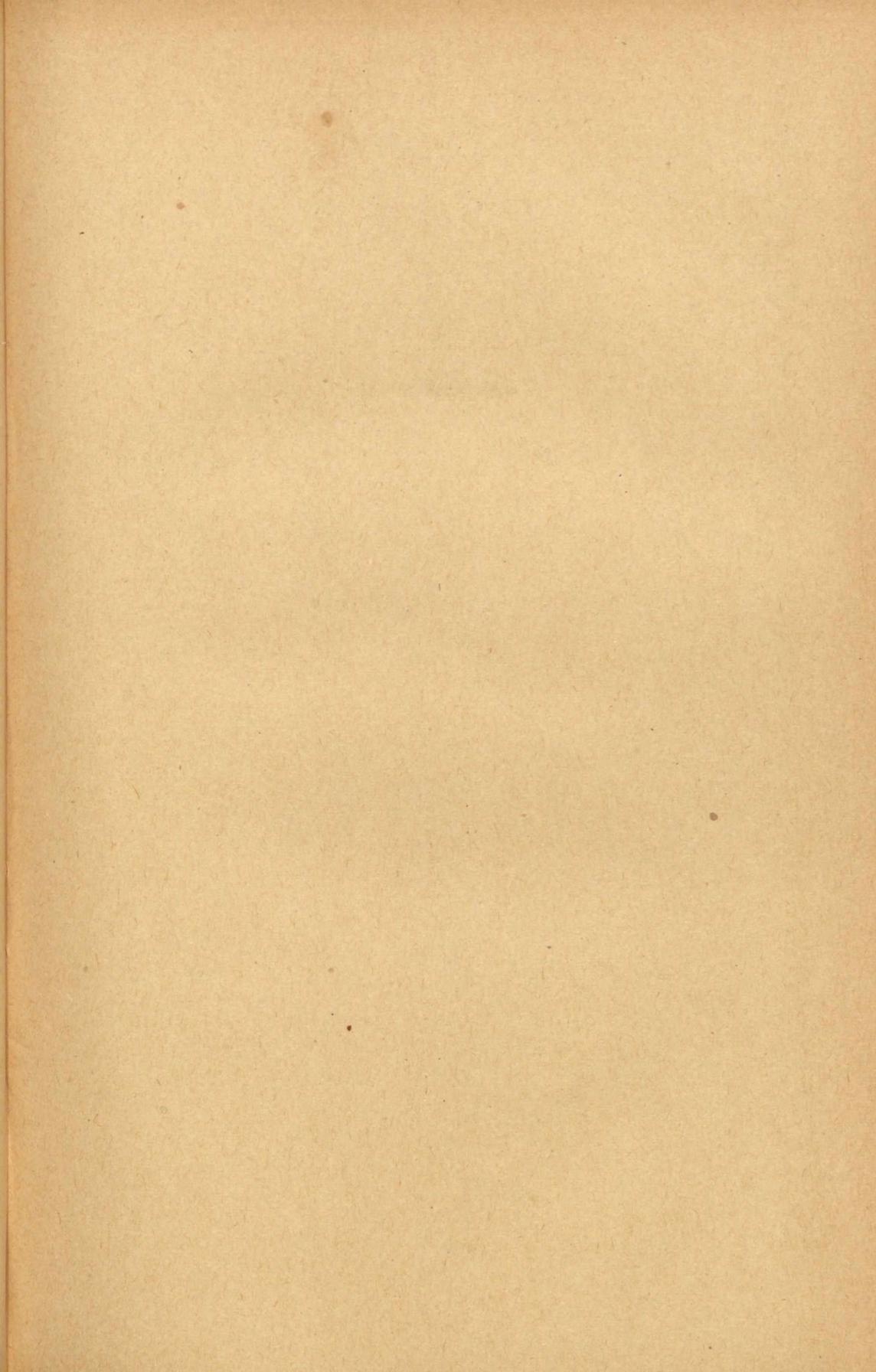
Mr. BLACKMORE: I second the motion.

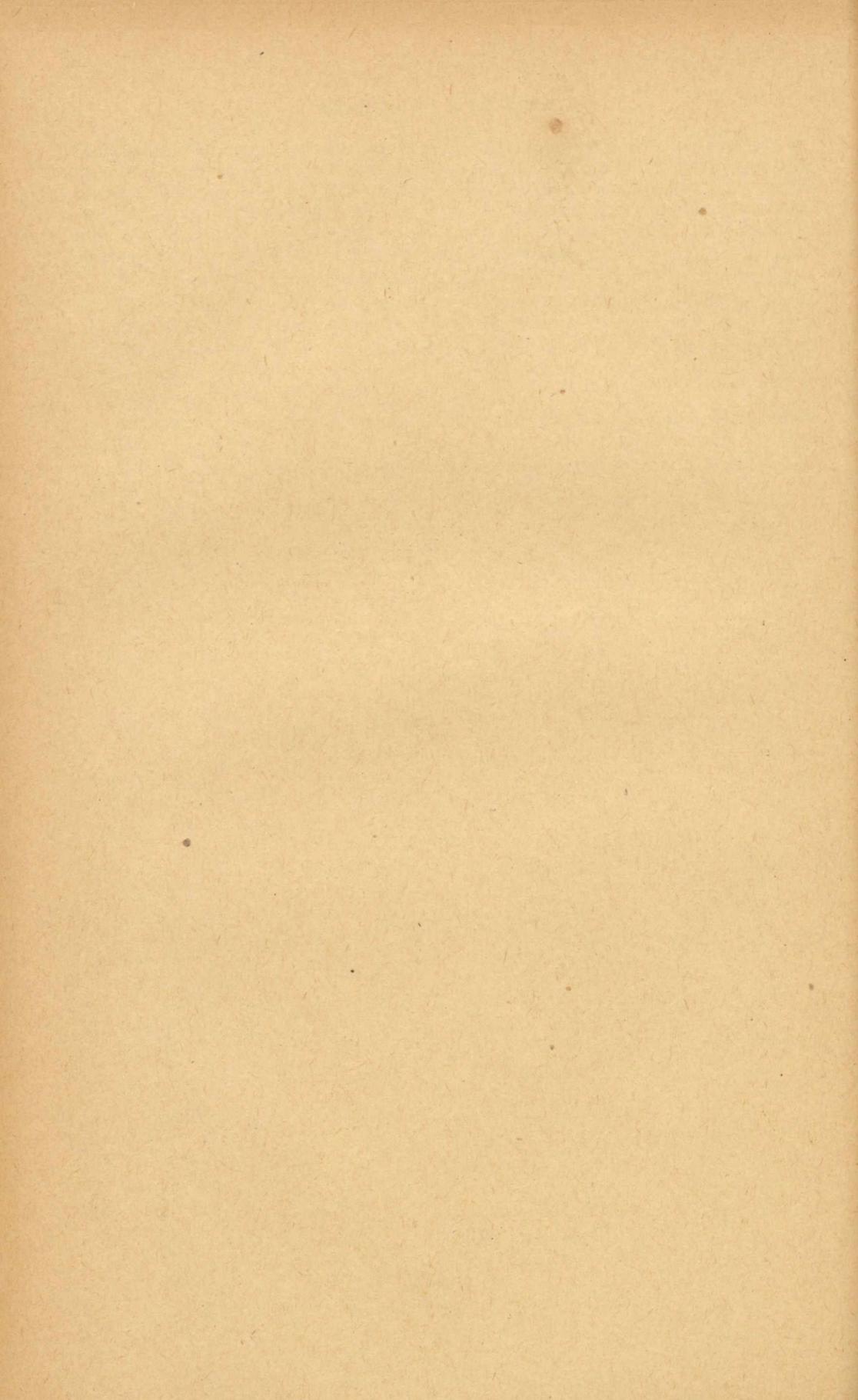
Mr. ISNOR: It is now after ten o'clock and you cannot put a retroactive motion.

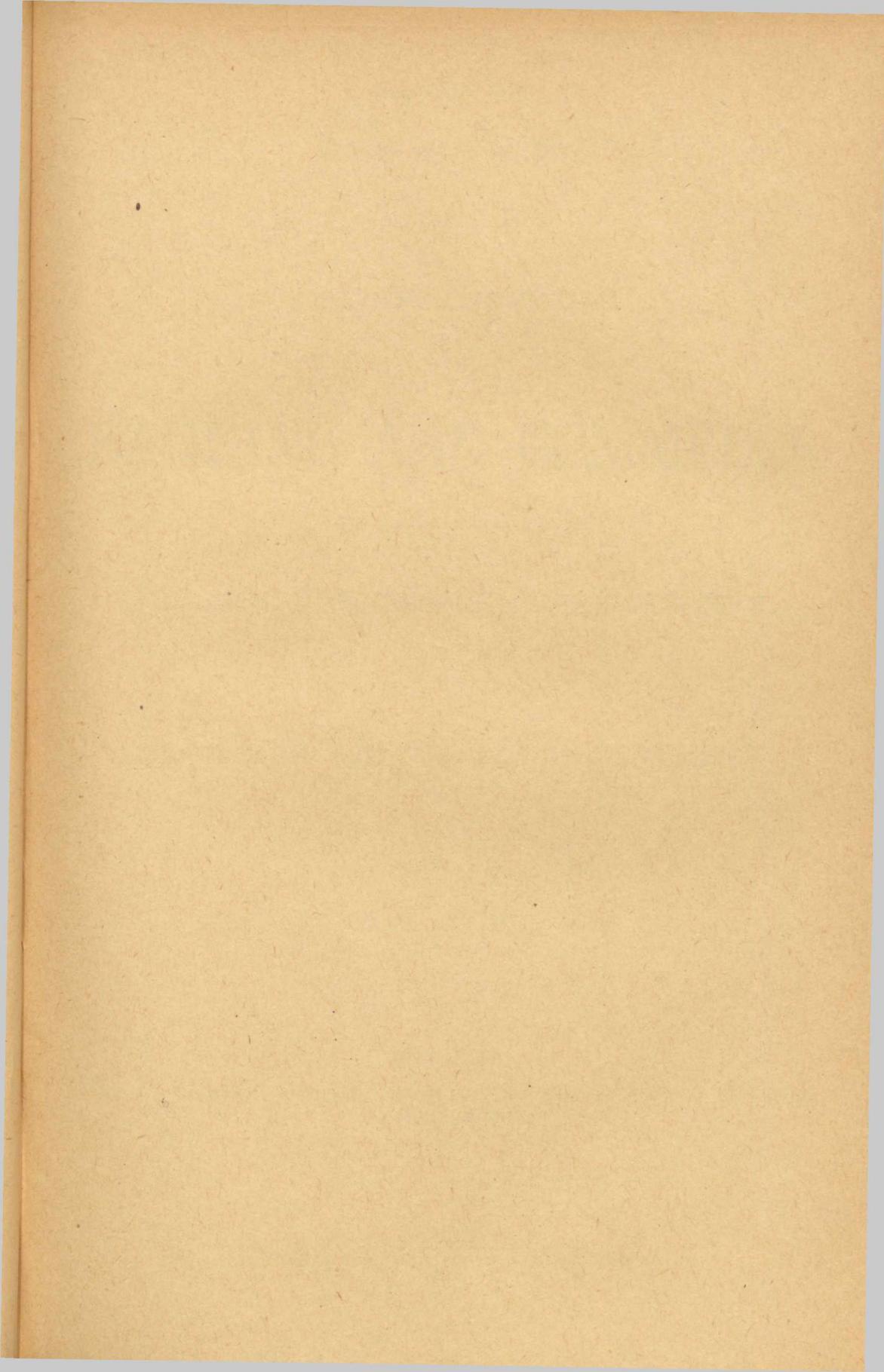
The CHAIRMAN: All those in favour of adjourning at ten o'clock please signify?

The motion is carried.

We will meet on Monday, July 15, at 11 o'clock a.m.









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SESSION 1946

HOUSE OF COMMONS

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STANDING COMMITTEE

ON

# BANKING AND COMMERCE

---

BILL 195, FOREIGN EXCHANGE CONTROL

---

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

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MONDAY, JULY 15, 1946

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WITNESS:

Mr. L. Rasminsky, C.B.E., Chairman (Alternate), Foreign Exchange Control Board.



## MINUTES OF PROCEEDINGS

MONDAY, July 15, 1946.

The Standing Committee on Banking and Commerce met at 11.00 a.m.

*Members present:* Messrs. Argue, Black (*Cumberland*), Blackmore, Dechene, Fleming, Gour, Hackett, Harkness, Hazen, Irvine, Isnor, Jackman, Lesage, Macdonnell (*Muskoka-Ontario*), MacNaught, Mayhew, Quelch, Strum (Mrs).

*In attendance:* Hon. D. C. Abbott, representing the Minister of Finance, Mr. L. Rasminsky, Chairman (Alternate) and Mr. R. H. Tarr, Secretary, Foreign Exchange Control Board.

In the absence of the Chairman, Mr. Cleaver, it was moved by Mr. Irvine, seconded by Mr. Dechene, that Mr. Isnor act as Chairman.

Motion carried and Mr. Isnor took the chair.

The Committee resumed consideration of Bill No. 195, An Act respecting the Control of the Acquisition and Disposition of Foreign Currency and the Control of Transactions involving Foreign Currency or Non-Residents.

Mr. Rasminsky continued his explanation of certain provisions of the bill in answer to questions by members of the Committee.

At 1.00 p.m. the Committee adjourned until 4.00 p.m. this day.

### AFTERNOON SITTING

The Committee resumed at 4.00 p.m., Mr. Isnor, presiding.

*Members present:* Messrs. Argue, Black (*Cumberland*), Blackmore, Bradette, Fleming, Gour, Harkness, Hazen, Irvine, Isnor, Jackman, Lesage, Macdonnell (*Muskoka-Ontario*), Mayhew, Michaud, Pinard, Quelch, Rinfret, Sinclair, (*Ontario*), Stewart (*Winnipeg North*), Strum (Mrs).

*In attendance:* Hon. D. C. Abbott, representing the Minister of Finance, Mr. L. Rasminsky and Mr. R. N. Tarr of the Foreign Exchange Control Board.

Further consideration was given to the Foreign Exchange Control Bill (No. 195), Mr. Rasminsky being again questioned thereon.

Clauses 2, 3 and 4 of the bill were adopted.

At 6.00 p.m., the Committee adjourned until Tuesday, July 16, at 4.00 p.m.

R. ARSENAULT,  
*Clerk of the Committee.*



## MINUTES OF EVIDENCE

HOUSE OF COMMONS,

July 15, 1946.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Acting Chairman, Mr. Gordon B. Isnor, presided.

The CLERK: Gentlemen, Mr. Cleaver, the regular chairman, is absent this morning. It has been suggested to me that Mr. Isnor take the chair. Is that the pleasure of the committee?

Mr. IRVINE: I move it.

Mr. DECHENE: I second it.

The CLERK: It is moved and seconded that Mr. Isnor take the chair. All in favour signify by saying aye. Contrary say nay.

Carried.

The ACTING CHAIRMAN: Gentlemen, I received a note from Mr. Cleaver advising me that he would be unable to be present here this morning and suggesting that I might take the chair. I immediately wrote him stating that I felt because of the nature of the bill that it would be better to have one of a legal mind acting as chairman, but if it is your pleasure I will endeavour to carry on and with your assistance perhaps we will make some headway.

Mr. IRVINE: Great is your faith.

The ACTING CHAIRMAN: I am optimistic. I come from the maritimes where there is optimism. If I recall correctly Mr. Rasminsky was before the committee and I will ask him to proceed, or the members will proceed and he will give the necessary information with regard to the various clauses. We are on section 2, gentlemen.

### **Louis Rasminsky, Chairman (Alternate), Foreign Exchange Control Board, recalled.**

Mr. BLACKMORE: Mr. Chairman, before we commence I wonder if it might be in order to ask that I might have about five or six minutes to make a little statement I should like to make on the basis of which I should like to ask a question or two. Would it be quite all right?

The ACTING CHAIRMAN: It is quite all right with me.

Mr. BLACKMORE: I am trying to get my teeth into this problem, and trying to find a place where I can do it.

The ACTING CHAIRMAN: I am a layman like you. I read the bill very carefully and I wondered as to whether we were going to continue to ask questions as to the policy and the objects of the bill or to deal with the different sections one by one. If you wish to make extended remarks that is a matter for the committee.

Mr. BLACKMORE: I have no desire to make extended remarks, but as far as I am concerned I have to have some way of telling where we are going, what is the purpose of this bill, and all that sort of thing. I may say that I

feel very humble in the matter because I have been in parliament only ten years, and I was trained as a school teacher and as a farmer. I do not possess any special qualifications for dealing with problems of banking and commerce and yet it is my responsibility to do so. I am trying to feel my way around with the assistance of the experts we have here. Therefore, if you do not mind I will say a few words about the way it looks to me and see whether we all agree. then we can proceed on that basis.

Every nation like every individual is in constant danger of falling into debt. Mr. Rasminsky will check me in case I make any statement which is inaccurate. That is the first general statement and one which I think is exceedingly important, and which I do not believe the majority of the people throughout the country realize. A nation, like an individual finds if it gets into debt that its freedom is impaired and its welfare is in jeopardy. Every nation then should strive to get out of debt and stay out of debt. Canada is deeply in debt, even dangerously in debt.

Mr. FLEMING: May I interrupt? I do not want to interrupt Mr. Blackmore, but I gathered from one remark he made that he expects Mr. Rasminsky to offer any rejoinder or comment on each individual statement as he goes along. If Mr. Rasminsky does not agree with any one statement then is Mr. Rasminsky's silence to be regarded as acquiescence?

Mr. IRVINE: May I interject? I do not believe this is exactly on the theme of the bill, is it?

Mr. BLACKMORE: It will be shortly.

The WITNESS: I was silent because I naturally did not want to interrupt Mr. Blackmore, but Mr. Fleming's intervention does give me the opportunity to say that I regard myself as being here to give any detailed information that I have in my possession which is relevant to the consideration of the various sections of this bill. From the tenor of Mr. Blackmore's remarks up to this point I think I should say now that I do not believe that it would be expected of me that I would make any rejoinder or comment on Mr. Blackmore's remarks.

Mr. BLACKMORE: I feel that is quite all right. My remarks all have a bearing on clause 26, section 2; members will not now be fearful lest I am out of order. I was saying that Canada is deeply in debt, even dangerously in debt, and Canada should get out of debt and stay out of debt. Bill No. 195, at present being considered by our committee, is a measure proposed as one means whereby Canada might be able to help to prevent herself getting any further into debt. If there is anyone who doubts that on the committee it might be all right to make a note.

Mr. IRVINE: I do not see the point, I am sure. You may be coming to something different but I cannot see how an exchange bill can help or hinder us from getting into debt.

Mr. BLACKMORE: Maybe the best thing for me to do would be to make my statement and then after that discuss the matter with the various members. I think there is no doubt at all that is what the purpose of the bill is, to help us to get out of debt. Bill No. 195 could appropriately be called the Foreign Exchange Control Bill. Its purpose is to help Canada get out of debt and keep out of debt. To judge of the adequacy or inadequacy of this bill we, as committee members, can safely ask ourselves this question: Is this bill the best kind of foreign exchange control bill the government could bring forward at the present time having in mind the objective of keeping Canada from falling further into international debt?

Perhaps we should first satisfy ourselves as to the need for deep anxiety concerning Canada's international debit situation, as to the need for some kind of severe measure for coping with Canada's international debt position, as to

how serious is Canada's international debt situation, and especially how deeply is Canada in debt to the United States, for the United States is a very real and deadly threat to every nation but Russia, because having such a productive potential the United States resists imports thereby making United States dollars so hard to get.

What is Canada's debt position in respect of the United States? In my judgment it is disturbing. On page 7 of the report of the Foreign Exchange Control Board of March, 1946, we read:—

The aggregate foreign investment in Canada at the outbreak of war in 1939 was nearly \$7,000 million, more than half of which, as table 3 below shows, was held by American investors.

I take that to be the greatest cause for anxiety that this committee has, and probably the greatest cause for anxiety that the government has. Table 3 on page 7 of the report shows Canada's debts at the outbreak of war in 1939 were, to the United States \$4,190,000,000, to the United Kingdom \$2,466,000,000 and to all others \$270,000,000. I submit that obligation to the United States, Mr. Chairman and members of the committee, is appalling. I have a question which I should like to ask the witness. I should like to have witnesses come before this committee and answer it in sufficient detail to satisfy my mind as one of the responsible members of the committee. How did Canada come to be in such perilous bondage to her next door neighbour, the United States?

What was her debt to the United States in 1900? I should like to know that. I should like to know what is the matter that we are in this position of colossal debt, a nation with the resources that we possess in Canada, with the kind of people that we have and with the productive capacity we have. The fact that we are in debt to the United States to that extent is a challenge to every person in Canada, and especially to this committee.

And now, I would like to know what are the commodity imports during each of the years 1900 to 1939 which mainly contributed to the accumulation of this tremendous debt, and I would like to have the witness before this committee who is qualified to answer that question; what were the commodities imported during each of the years 1900 to 1939 which mainly contributed to the accumulation of this tremendous debt? And I would also like to have the witness come prepared to give us an indication of what were the twenty major items of import during that period.

Mr. IRVINE: May I ask you a question, Mr. Blackmore?

Mr. BLACKMORE: Yes.

Mr. IRVINE: I think we are just so much better off if we can get \$4,000,000 of United States money, we can just let them do the worrying about it.

Mr. BLACKMORE: I do not think so.

Mr. IRVINE: I think we should welcome all the money we can get from the United States. I think we should know more about that.

Mr. BLACKMORE: That is all right. I will be prepared to go into that in detail, but I think we should keep out of debt internationally.

Mr. IRVINE: I agree with you about going into debt, but I think in this particular case we should welcome United States investment.

Mr. BLACKMORE: Have I made that question quite clear? I want the witness who is called to be able to give the twenty major items which Canada has imported which have contributed to this colossal debt. For instance, we are today importing from the United States something like 5,000,000 tons of coal a year. Now, that would be one of the items. That thing has been going on for a long, long time. Is that one of the major items which has caused this debt? If it is not, then what are the items which have built up this accumulation of

debt? It is only by having these items that we can find out the source from which our debt accumulated. We in this banking and commerce committee ought to go into this matter and give it some particular attention. Something must be done if we are going to save our nation. Something must be done; and the country looks to those of us on this committee to find out what that is. This is the committee which ought to find out, and which ought to make a recommendation. To that end it seems to me we ought to do two things—the first, being to find out what were the current account transactions which mainly contributed to our adverse trade balances which resulted in our debt.

And now, if I might elucidate just a minute, Mr. Chairman, I should like to recall to the members of the committee this thing to which I have given attention myself and tried to get an understanding of, since I started to read this report, that there seems to be two kinds of transaction which caused the nation to fall into debt; the first of these is current account, and has to do with the goods and services we import; and the second one is capital account, capital transactions which have to do with the money we import. In order to get an understanding of our debt position we have to be able to get some sort of comprehensive picture of what has taken place in our current account transactions and in our capital account transactions.

During these years from 1900 to 1939, then, I would like to have this from another witness, or the same witness if he is able to give it; what were the capital imports during each of those years 1900 to 1939 which mainly contributed to Canada's accumulation of debt—and let him tell us the twenty major items under this heading, if there were twenty major items.

And now, so that an ordinary person like myself, trained as a farmer and a school teacher, can get an understanding of the problem—(it is no use for me or any one else to sit here as a member of this committee and talk about things they do not understand. I have a responsibility as a member of parliament to my people. I want to understand and be able to deal with this thing intelligently. I think a large percentage of the other members of the committee who are here are in a similar situation to myself.)

May I draw attention to certain passages in the report; they are not very extensive, but to me they are just simply filled with portent. On page 3 I find, at the bottom of the page in the last paragraph, these words:—

The total excess of imports over exports during the five years 1910 to 1914 was \$950 million. Other international payments on current account exceeded receipts by \$750 million. The aggregate deficiency on current account, and therefore the apparent capital import or net increase in external debt, was accordingly some \$1,700 million during those five years.

What was happening to Canada, and what could have been done about it? Had Canada had a foreign exchange control board like the one we have presupposed in the bill before us, could she have prevented that sort of thing; and if so, to what extent? I think, Mr. Chairman, those are questions which ought to be made clear to me. I am assuming that I am the weakest member of the committee. I would like to have those things cleared up.

And now, on page 4, I find:—

Exports far exceed imports, but the "invisible" current account transactions resulted in a large deficit.

That was in the period 1914 to 1918. That was the war period, I will grant you; and may be they had no Hyde Park agreement, and there was no import of U.S. capital to build a Canol project or another Alaska highway project. We will grant all that. Nevertheless I think as members of the committee we ought to know just why that serious deficit took place when Canada exported far more than she imported, yet as the result of unfavourable current account transactions she had a large deficit in her United States trade. I find these facts disturbing to me; I would like to have them cleared up.

And in the early 20's there was once again a substantial deficit in Canada's international current account. In 1920 alone she had a deficit of \$350 million, which is referred to in this report as, "an abrupt and very large change from the previous year's small surplus on current account".

Now, Mr. Chairman, I find myself irritated, exasperated, by this consideration. I can understand how we might have gone into debt as the result of war, but to think that in 1920, in one of the best years, we again went into debt to the tune of \$350,000,000! I would like to know whether or not had Canada had a foreign exchange control bill such as bill 195 could she have prevented that increase of debt or modified it to some degree so that future generations would not be burdened by that colossal obligation.

Now, down the page, towards the end of the last paragraph, I find these words, which I again think are challenging:—

In the three years 1929-31 we had a net trade deficit of \$165 million, compared with a net surplus of \$590 million in the three preceding years 1926-28. By this time payment of interest and dividends on foreign investments in Canada—

This would answer the member for Cariboo (Mr. Irvine), I think. May I read that sentence again?

By this time payment of interest and dividends on foreign investments in Canada had become a large and fairly rigid feature of the current account and the current account as a whole showed a deficit of \$825 million in 1929-31 compared with a surplus of \$85 million in 1926-28.

I would just like to know why it was that between 1929 and 1931 we should have had a deficit. What was the matter with us? Would this foreign exchange control bill stop that sort of thing? And, if not, why not?

Now, Mr. Chairman, I think I have imposed on the committee sufficiently for the present, but I think I have given the reasons why I would like to have these questions answered in considerable detail.

MR. IRVINE: I think the first thing for the committee to decide, Mr. Chairman, is whether the inquiry, raised by the member which no doubt was interesting and important, is relevant to the bill? If it is, I think we should acquiesce in his request and find the person who can give the answer.

MR. BLACKMORE: If my first question has no relation to this bill, then I would say that it should be studied; and if this committee is not the place in which to do it, that it should be studied in the House of Commons. It is, to say the least, a thing which should be studied by someone in this Dominion of Canada.

May I ask just another question. I do not want to take up too much of the time of the committee, but the point is this, somebody has got to deal with this situation. I do not believe any member of the committee wants to see this country go on continually plunging into debt until we are destroyed; but, where is the place; and where, and how, and when are we going to do it? If this is not the place, will somebody please tell me what is.

MR. HAZEN: Is the purpose of this bill to get us out of debt and keep us out of debt? Mr. Blackmore seems to be basing his question on the premise that the purpose of this bill is to get the country out of debt and to keep it out of debt. If that is the purpose of this bill then it seems to me that he is right in asking these questions. If that is not the purpose of the bill, then it seems to me it would be better if the questions were asked some place else and at another time. I am speaking as a layman in this matter.

MR. BLACKMORE: We are all laymen.

MR. QUELCH: Mr. Chairman, I was just going to say this; let's read the preamble, I think it is quite clear.

Mr. MACDONNELL: Yes, I was going to suggest that the way to answer this question was to refer to the preamble of the bill. That would indicate whether it was the purpose of the bill to get the country out of debt and to keep it out of debt.

The WITNESS: I think I can answer that best by reading to you the preamble of the bill. But I may say this, that in the statement of purposes contained in the preamble that is not set out as one of the purposes of the bill.

Mr. BLACKMORE: Mr. Chairman, might I ask Mr. Rasminsky two or three questions? I am trying to clear the underbrush away from the trees so that I can see through to the really big ones. This bill is designed to keep us from allowing too great quantities of our money to leave this country, isn't it? It is designed to give us control over capital transactions, isn't it?

The WITNESS: I can only answer that, Mr. Blackmore, by quoting from the preamble which contains the statement of purposes of the bill:—

Whereas it is desirable to control and protect the value of the Canadian monetary unit in relation to foreign currencies; And whereas it is desirable to ensure that Canada's resources in foreign currency shall be made available to meet the needs of Canada as a whole; And whereas it is desirable to ensure that the said resources in foreign currency are used to promote and facilitate trade and other normal current transactions with other countries and are not dissipated through disadvantageous exports of capital from Canada or for other purposes disadvantageous to Canada as a whole; And whereas it is desirable to provide means for achieving orderly exchange arrangements and in general discharging the obligations of Canada as a member of the International Monetary Fund;

I take it that is the official statement of the purposes of the bill.

Mr. BLACKMORE: You see, a good many of those statements are very vague. Their implications might be very narrow or very extensive. I will simply ask this question, Mr. Chairman, and members of the committee; if what I have indicated is not the purpose of this bill, why is this report of the Foreign Exchange Control Board, which is largely concerned with the very items I have mentioned, placed before us. You will notice that the very first thing it does for any person who reads the report is to show the condition of Canada in the international sphere with respect to debts. All the pages, 1, 2, 3, and a good many more pages, are devoted to that very problem. And now, if dealing with our international debt position is not the object of foreign exchange control, why then has this report, so largely concerned with international debt, been placed before us?

The ACTING CHAIRMAN: Mr. Blackmore, I believe at an earlier stage in your remarks you pointed out the fact that your observations related more particularly to section 26. Would it be agreeable to you to permit the committee, if they so desire, to proceed with the bill section by section until we reach section 26, and then for you to ask your questions relating to debt?

Mr. BLACKMORE: So far as I am concerned, Mr. Chairman, I will be quite happy to do as you suggest, except for one thing; it is well known as a matter of procedure that this is the point at which we may ask questions of a general nature and get answers thereto without being called out of order. And now, Mr. Chairman, what I am concerned about is this, I want to get this thing cleared up. I want to be satisfied in my own mind as to what the primary object of this bill is; and, as I see it, it is to enable Canada to control her international debt. I do not think there is a doubt in the world about that.

Mr. QUELCH: I would also like to ask Mr. Rasminsky a question—he quoted from the preamble:—

And whereas it is desirable to provide means for achieving orderly exchange arrangements and in general discharging the obligations of Canada as a member of the International Monetary Fund;

Does not that imply that in order to carry out our obligations not to exceed our quota it is desirable that we should not get into debt? Otherwise, we may have imposed upon us certain charges for the amount that we exceed our quota?

The WITNESS: The implication of your question would seem to be that the International Monetary Fund is an institution which is designed exclusively for the use of creditor nations.

Mr. QUELCH: No, I think for debtor nations also; but in order that it can use the quota of other nations to finance imports.

The WITNESS: Yes.

Mr. QUELCH: And when they exhaust their own quota they are then perhaps open to certain charges which can become quite considerable over the years.

The WITNESS: But, Mr. Quelch, if Canada does not wish to incur the charges involved in the use of her quota under the International Monetary Fund, I presume she will not use her quota in the International Monetary Fund. It is entirely up to Canada whether she uses her quota or not—

*By Mr. Quelch:*

Q. Would not that be part of the function of the Foreign Exchange Control Board, to prevent that, exceeding her quota under the agreement?—A. No, sir. The responsibility of the Foreign Exchange Control Board will be to administer the measure that you are studying in this committee and no other. I am afraid I must have missed the point of your question, Mr. Quelch, because I do not seem to be answering it.

Q. You will by preventing the export of capital? I mean, you can place certain restrictions on current account transactions where you think they are being carried on at a price which is not economical?—A. Apart from that exception, the Foreign Exchange Control Board under this legislation has no authority to control in any way the imports and exports of goods.

Q. I think that is the whole point of Mr. Blackmore's question, that it should have that authority.—A. If that is the point of Mr. Blackmore's question, then I can answer the question, and the answer is I think quite simple. The answer is that if circumstances arose in which for one reason or another it seems desirable to place restrictions on the import of goods into Canada then it is evidently the opinion of the government in this measure that the power to place those restrictions should not be conferred upon an administrative body such as the Foreign Exchange Control Board. That power should rest where it always has rested, namely, in parliament, and any import restrictions should be imposed as a result of the normal legislative processes. This measure does not take away from parliament any of the powers that parliament now has in connection with the control of imports. What this measure does is refrain from conferring on an administrative body, namely, the Foreign Exchange Control Board, any power to control in any way the quantity or the composition of Canada's imports or exports.

Mr. FLEMING: I cannot quite follow Mr. Rasminsky's statement—

The ACTING CHAIRMAN: Would you allow Mrs. Strum to ask a question?

*By Mrs. Strum:*

Q. I want to get it clearly in my mind. Like Mr. Blackmore I am looking for information. I take it this is a continuation of the discussion we had before the week-end, is it?

The ACTING CHAIRMAN: Yes.

*By Mrs. Strum:*

Q. What I am thinking is that Mr. Blackmore's point is just a part of the whole question. Would not payment of debt be just one of the things that would be authorized by the passing of this bill? Is this not a bill with a much wider application than Mr. Blackmore is putting on it?

The ACTING CHAIRMAN: I think possibly his remarks were made before you came in.

Mrs. STRUM: He was talking about the public debt.

The ACTING CHAIRMAN: He based his remarks on section 26 dealing with exports or imports.

*By Mrs. Strum:*

Q. I should like to ask Mr. Rasminsky if the purpose of this bill is not to cover a number of things, that is, the transactions of companies and individuals and the payment of public money? Does this not have to do with currency and not with any one thing? Is it not a sort of blanket bill covering a number of transactions?—A. That is right. The purpose of this measure is to bring under supervision, and in some cases under control, all financial transactions and transactions in goods and other valuables between residents of Canada and residents of other countries. As has frequently been pointed out, the only restrictive use which is at present being made of the scrutiny which the Foreign Exchange Control Board makes of all transactions, is in respect of certain types of capital transactions. Other transactions are brought under the scrutiny of the Foreign Exchange Control Board because it is necessary that they should all be brought under its scrutiny to ensure that capital transactions do not take place. As I understand it Mr. Blackmore is raising a question of the policy that is followed from time to time in connection with the administration of this measure. That, of course, might be raised in connection with any one of the various types of transactions you have alluded to. He has referred particularly to the policy regarding international indebtedness.

Q. Just to get this clear in my own mind, the purpose of this bill has nothing to do with the policy in regard to debt but it is rather the regulation of the passage of money, the payment of moneys?—A. The question of the import and export of securities is one of the things that is covered by this measure.

Q. But this is not policy making?—A. No, that is right. This simply provides the machinery. The question of policy is a question for the government to determine.

*By Mr. Macdonnell:*

Q. Under section 27 you in effect determine questions of policy?—A. On the question of securities?

Q. Yes. How do you determine whether or not you will allow money to be imported?—A. In a general way by authorizing the granting of permits for the sale of securities to non-residents provided certain conditions are met.

Q. Well, are those absolutely automatic? Is there any discretion that you exercise?—A. In connection with the sale of securities?

Q. Yes.—A. There is no individual discretion, no. We set out certain types of criteria which must be met. For example, let us take a security which

is payable in United States dollars; let us say a Canadian owns an American security. If the Canadian owns an American security and wishes to sell it in the United States he must receive payment in United States dollars. He cannot receive payment in sterling or in Chinese currency or in Canadian dollars acquired through the unofficial market. He must receive payment in United States dollars, and the United States dollars must be sold to the Bank of Canada if they are not used for the purpose of being reinvested.

Q. Apart from the technique, let us say that a man wants to make a bond issue in the United States. Have you not certain discretion in determining whether that will be allowed at all?—A. Yes, we have.

Mr. HACKETT: This all gets back to Mr. Blackmore's question.

The WITNESS: The point I wish to make is that discretion is exercised according to certain definite principles and is not an individual discretion that is exercised in connection with each particular application that comes before the board.

Mr. HACKETT: That was the result of the discussion raised by Mr. Jackman with regard to the sale of Canadian securities to Americans or the purchase of Canadian securities by Americans in the month of January last when the price suddenly went up, and it was suggested by Mr. Jackman that resulted from an order of the board. I do not think you fully acquiesced in it, but that is the way the matter stands. There are those who consider that the board is used to keep down the foreign debt—what do you call it, Mr. Blackmore?

Mr. BLACKMORE: Foreign obligations or foreign debt, international debt, particularly the debt to the United States.

*By Mr. Fleming:*

Q. There is one remark of Mr. Rasminsky's that I should like to ask a question about. I think it was his final remark in reply to Mr. Quelch's question. I could not quite follow it. I know that Mr. Rasminsky is usually so convincing on a point that I hesitate to say that this is different. It is perhaps an unusual situation. Mr. Rasminsky intimated that he did not construe the bill as taking away from parliament any of parliament's power to deal with imports and exports as it sees fit. While in the sense that parliament can always revoke its own Acts and repeal its own measures no doubt that is true yet nevertheless having regard especially to sections 25, 26 and 27, surely we have a provision where parliament is conferring on someone outside of parliament the power to exercise some regulatory control over the movements of goods or capital in a more liquid form. Surely it is not a complete answer to say that protection is provided in what are apparently intended to be the saving or reassuring clauses, section 25, subsection 2, section 26, subsection 2 and section 27, subsection 3. They do not go so far as to remove from the Foreign Exchange Control Board all regulatory power with reference to the movement of goods, currency, and securities?—A. I do think that the subsections to which you have just referred very definitely have this effect, that they make it impossible for the board to withhold permits for the import or export of goods except on two grounds, one, that the payment is not in a currency which has been specified as the appropriate currency for that transaction; and two, on the ground that there is an improper valuation placed on the transaction.

*By Mr. Hackett:*

Q. Resulting in an export of capital?—A. Resulting in an export of capital. Unless one or the other of those conditions has been met then I do suggest

that the very direct effect of section 25, subsection 2, and section 26, subsection 2, is to remove from the Foreign Exchange Control Board any authority to influence in any way either the quantity or composition of Canada's external trade.

*By Mr. Fleming:*

Q. I think we will be on common ground if we say that there is no element of discretion left to the board in broad terms to deal with individual cases. That is the effect of subsection 2 of section 26 and subsection 2 of section 25, but surely the board does retain a direct regulatory power, even making all allowance for subsection 2 in both cases. It does retain a direct regulatory power over the movement of goods, currency and securities?—A. Currency and securities are something else. It is of the very essence of the control of capital movements that the board must have power to license transactions in currency and securities.

Hon. Mr. ABBOTT: I think it is fair to say that parliament through this bill will delegate to the Foreign Exchange Control Board the authority to regulate capital movements.

The WITNESS: Subject to control from the Minister of Finance.

Hon. Mr. ABBOTT: Oh, quite, but there is a very wide discretion given to the board with respect to those matters. As Mr. Rasminsky has said that is essential to a plan of foreign exchange control as distinct from an equalization fund.

The WITNESS: May I add this to what the minister has said, that in order to enable the board to exercise that control over capital movements it is absolutely essential to give the board the authority to scrutinize all current account transactions and to place restrictions on import or export transactions which take place at improper valuations which have the effect of producing capital movements, or which take place in currencies which have not been designated as the appropriate currencies for those transactions.

*By Mr. Macdonnell:*

Q. I am not quite able to square what the minister has said with what you said a few minutes before that while it is true in respect of securities you could regulate, you can only do it according to general rules, not in individual cases, but according to general rules laid down. Did I understand you correctly then?—A. No, I was stating a position of fact there, Mr. Macdonnell. I wanted to make it clear that the board does have control and exercises control over capital transactions, but it does not exercise control by looking at each individual case and deciding that it will turn this transaction down but it will turn this transaction up. The board exercises that control by deciding from time to time, subject to the control of the minister, that certain types of transaction will be authorized and certain types of transaction will not be authorized.

Q. And the types may vary from time to time?—A. They may, yes, sir.

Q. Then that is the explanation of what I did not quite understand. In other words. I have here the instructions prevailing at the moment, but nevertheless those may, in the discretion of the Foreign Exchange Control Board, be altered, so in effect the restriction on the movement of capital could be drastically changed the day after tomorrow?

Hon. Mr. ABBOTT: With the approval of the minister.

Mr. MACDONNELL: Surely, but without the approval of parliament.

Hon. Mr. ABBOTT: Oh, quite.

*By Mr. Fleming:*

Q. Coming back to Mr. Rasminsky's earlier remark in reply to Mr. Quelch on which I picked up my ears, when you spoke about imports I took it you were confining your remarks there to imports of goods?—A. Yes.

Q. In other words, the suggestion there is no regulatory power vested in the board with reference to imports at the expense of any power parliament now has in that regard, Mr. Rasminsky, was referring to the export and import of goods rather than securities and currency?—A. That is right.

*By Mr. Hazen:*

Q. Then I call your attention to this reference to imports and exports of goods. Subsection 2 reads:—

“The Board shall not withhold a permit for the import”—or export—  
“of goods”.

But if you read subsection 1 it is much broader than that. It reads:—  
No person shall.

And it deals with property. There is a broad difference. Property includes everything, and under the definition section goods are limited. There is a limited definition of goods. Property includes goods and everything else. Subsection 2 of section 26 reads:—

The Board shall not withhold a permit for the import of goods.

And so on. It does not say that the board shall not withhold a permit for the import of property.—A. I think one has to ask oneself what are the other types of property that are covered by subsection 1 of sections 25 and 26. Property is defined in section 2, subsection 1, paragraph S, to mean “every kind of real or personal, movable or immovable property.” If one excludes goods and real estate, the other types of property coming under consideration are currency and securities.

Hon. Mr. ABBOTT: Intangibles of some kind.

*By Mr. Hazen:*

Q. The definition of “goods” is:—

“Goods” means any property other than real or immovable property, currency, securities, negotiable instruments and choses in action.

A. It is currency, negotiable instruments and choses in action that in effect are covered by section 26, (1) and section 25 (1) in addition to goods. I do not see how one can control capital movements without controlling the import and export of currency and negotiable securities. It is of the very essence of the control of capital movement.

*By Mr. Macdonnell:*

Q. I would not question that. Incidentally may I say in case my questions give rise to any misapprehension that I recognize we have got to have control. My question is what kind it is to be, how long it is to continue, and all that sort of thing. I should like to ask a question. You have pointed out that so far as goods are concerned all you do is scrutinize the bona fides of the transaction, and you point to subsection 2 of section 25 which says that you may not refuse. Nevertheless what I want to ask is this: Suppose you find—and this goes back to Mr. Blackmore’s question—that the import of goods is getting to a point which you think is undesirable from the point of view of the exchange rate, or what you will. Might that then cause you, by reason of the large amounts of money which were being used on current accounts to provide for the import of goods, to change your dispositions with regard to your rules affecting capital, currency, securities, and so on? In other words, can you in an indirect way do what you may not do directly? I am not suggesting that in any critical sense. I am asking if that is the effect of the way it works?—A. I do not think so. If we found that the import of goods into Canada was creating

a drain on Canada's exchange position then I think it is clear that what the Foreign Exchange Control Board would have the duty to do would be to bring the situation to the attention of the minister, and if the Foreign Exchange Control Board itself thought it appropriate to do so it could recommend certain courses of action for the consideration of the minister.

Q. For example?—A. I think it is more likely that some of the senior officers of the Foreign Exchange Control Board, acting in an advisory capacity to the minister rather than the board itself, would recommend certain courses of action. For example, I may recall what was done in 1940 and 1941 when precisely the situation we are discussing now did, in fact, come about. We were running out of United States dollars. There were two main courses of action that were taken at that time to deal with the situation. One was the War Exchange Conservation Act, an Act of parliament which placed an embargo on the import of certain specific commodities from the United States and other countries to whom we had to pay United States dollars for those imports; the second was the restrictions on the use of United States funds for travelling. Those were the courses of action that seemed appropriate at that time to deal with the situation.

*By Mr. Quelch:*

Q. Mr. Blackmore suggested that section 26 should be widened in order to give the board power to control or restrict imports in order to help balance our payments. Mr. Rasminsky suggested that that could be done by legislation. It does seem to me we would not have that power under legislation, and we would not have that power to give the board that power in view of the fact that we are members of the Fund. Now, I raised that question the other day and Mr. Rasminsky pointed out that that only dealt with exchange. I dropped the question because I did not have a copy of the Bretton Woods agreement. Under (b) of section VII I find this:—

3. (b) A formal declaration under (a) above shall operate as an authorization to any member, after consultation with the Fund, temporarily to impose limitations on the freedom of exchange operations in the scarce currency.

Surely that can only mean one thing. If the Fund declared American dollars to be scarce then the Foreign Exchange Control Board would have the right to limit the amount of currency to be made available to pay for imports. Is not that correct? To limit the amount of foreign exchange of the member whose currency was scarce. If you are going to limit the amount of American dollars available to importers what does that mean? You are suggesting we could import goods without paying for them; is not that so?—A. Yes.

Q. Under article VII it does provide for placing a restriction against imports if the currency of a certain nation is declared scarce, and unless the currency of a certain nation is declared scarce then you have no power to place restrictions against the imports of any nation, and therefore legislation could not be passed and the board could not be given the power to place restrictions on imports. When I raised this question Mr. Rasminsky mentioned that article VII only referred to exchange control, but on the other hand the board could hardly give a permit to import goods from a nation and then refuse to make the currency of that nation available to pay for those imports?—A. I think the position is this, Mr. Quelch, if the scarce currency article came into effect, say against the American dollar, that would leave the Canadian government free to impose discriminatory import prohibitions or restrictions against imports from the United States, notwithstanding any other commitments that the Canadian government might have in a commercial treaty with the United States or in any other international convention dealing with trade; that so far as foreign exchange regula-

tions were concerned it would leave us free to import goods from the United States, to make payments on block accounts in Canada in the name of Americans. In other words, that the obligations regarding transferability or convertibility of Canadian dollars arising out of that current transaction, namely the import of goods from the United States, would be suspended automatically once article VII of the International Monetary Fund Agreement came into effect.

Q. And vice versa, if the Fund had not declared American currency to be scarce you would not have that right; in other words, you would not have the right to place any restrictions on the imports of America?—A. Yes.

Q. It seems to me that you have no power to place restrictions against the imports of any nation unless the currency of that nation is declared scarce?—A. No.

Q. We definitely would lose that power if we agreed to the proposals of the United States for the expansion of world trade, because it states here:—

2. Restrictions to safeguard the balance of payments. Members confronted with an adverse balance of payments should be entitled to impose quantitative import restrictions as an aid to the restoration of equilibrium in the balance of payments. This provision should be operative under conditions and procedures to be agreed upon. These conditions and procedures....

(d) should provide for the full application of nondiscrimination in the use of such restrictions after the transitional period.

That is to say if we agree to that. We cannot place a restriction on the imports of any one nation unless we place similar restrictions against imports of all nations, although we may have a balance of trade with the rest. It seems to me we also will not have that power in the Bretton Woods agreement unless that nation's currency will be declared scarce. We might have a scarcity of American dollars in Canada without American dollars having been declared a scarce currency in the Fund, and we would not have the power to place a restriction. By becoming a member of the Bretton Woods agreement we forfeited the right to place a restriction on imports of any one national unless the currency of that nation has been declared scarce in the Fund?—A. We have forfeited the right—

Mr. BLACKMORE: Surrendered.

The WITNESS: —surrendered in common with other countries. We have agreed under the Bretton Woods agreement to make the well known exceptions for the transitional period. We have agreed not to place any exchange restrictions on current account transactions with other member countries.

Mr. QUELCH: That is the same thing as saying a restriction on imports.

The WITNESS: No, it is not, and that is the point I have to repeat; that all we have agreed to in the Bretton Woods agreement is what is stated in the Bretton Woods agreement, namely, in article VIII, section 2:—

...no member shall, without approval of the Fund, impose restrictions on the making of payments and transfers for current international transactions.

Restrictions on the making of payments and transfers. There is no undertaking there not to impose import restrictions.

Now, it is perfectly true that the whole question of import restriction and import policy is dealt with in another document, the one you have quoted from; but so far as the Bretton Woods agreement is concerned it is concerned exclusively with the question of exchange restriction. What it ensures is that unless the scarce currency clause comes into effect that countries

shall not import and then make payment to a blocked account. The other document you refer to deals with the conditions under which countries will agree to impose or restrain from imposing import prohibitions or quotas.

Mr. QUELCH: Referring to Bretton Woods agreement, you would not suggest that the Foreign Exchange Control Board could give a permit for imports and refuse to make currency available?

The WITNESS: If the scarce currency clause were in effect, and if it were the policy of the government to import for payment in blocked Canadian dollars, and if the exporter was willing to take blocked Canadian dollars, it would be quite consistent, I believe, with our obligations under the Bretton Woods agreement to do that.

Mr. FLEMING: Perhaps the way to solve this problem is to confine this present measure of the transitional period with the terms of the Bretton Woods agreement. We would get back to the problem of how long this type of control is to be.

Mr. QUELCH: This does not apply except in regards to the transitional period.

Mr. FLEMING: Perhaps that is the way to solve this problem; confine it to the transitional period.

Hon. Mr. ABBOTT: You may remember I referred to that at the opening of the committee's proceedings since Mr. Macdonnell had suggested that perhaps the committee might consider placing a limit on the duration of this legislation, and I made reference to that in my brief opening statement when the committee commenced its sittings. I pointed out that the practice followed here was the usual practice with legislation under the British parliamentary system, that it was an open-end bill, leaving it to parliament to repeal the measure when it was no longer necessary, but that the government would be quite ready to consider placing a time limit on the legislation. I suggested that while we were prepared to leave the bill as it is we would consider a term but at the same time it should not be less than the term of the transitional period which was indicated under the Bretton Woods agreement, and also in connection with the loan to Britain.

Mr. FLEMING: I would not go five years with the minister on the limitation of the bill. I think there is something to be said in line with Mr. Quelch's point for confining the terms of the bill so that we shall not come into this clash, as Mr. Quelch sees it, as between the provisions of the bill on the one hand and Bretton Woods obligations on the other. I would not want that observation to be taken as carrying me the whole length of five years with the minister.

Hon. Mr. ABBOTT: I have not suggested any term. I only brought it up because it was brought up by Mr. Macdonnell when the bill was given second reading. My frank opinion is that the best course would be to let the bill stand as it is without a term, leaving it to parliament and the government of the day to repeal it as soon as it is no longer necessary. I am not indicating how long it will last—whether a year or two years or three years or five years; I think it is better to leave it on the basis that it would be continued so long as it is necessary and desirable in the interests of the people of Canada.

Mr. IRVINE: Can you name a time when it will not be necessary?

Hon. Mr. ABBOTT: I am quite ready, speaking on behalf of the government, to consider the views of the committee on that point, and I said so at the opening of the proceedings.

*By Mr. Jackman:*

Q. How long is the transitional period under Bretton Woods?—A. The transitional period—perhaps I had better read the whole of the article so as to place it on record:

#### ARTICLE XIV—TRANSITIONAL PERIOD

##### Section 1. Introduction.

The fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war.

##### Section 2. Exchange restrictions.

In the post-war transitional period members may, notwithstanding the provisions of any other articles of this agreement, maintain and adapt to changing circumstances (and, in the case of members whose territories have been occupied by the enemy, introduce where necessary) restrictions on payments and transfers for current international transactions. Members shall, however, have continuous regard in their foreign exchange policies to the purposes of the Fund; and, as soon as conditions permit, they shall take all possible measures to develop such commercial and financial arrangements with other members as will facilitate international payments and the maintenance of exchange stability. In particular, members shall withdraw restrictions maintained or imposed under this section as soon as they are satisfied that they will be able, in the absence of such restrictions, to settle their balance of payments in a manner which will not unduly encumber their access to the resources of the Fund.

##### Section 3. Notification to the Fund.

Each member shall notify the Fund before it becomes eligible under Article XX, section 4(c) or (d), to buy currency from the Fund, whether it intends to avail itself of the transitional arrangements in section 2 of this article, or whether it is prepared to accept the obligations of Article VIII, sections 2, 3 and 4. A member availing itself of the transitional arrangements shall notify the Fund as soon thereafter as it is prepared to accept the above-mentioned obligations.

##### Section 4. Action of the Fund relating to restrictions.

Not later than three years after the date on which the Fund begins operations and in each year thereafter, the Fund shall report on the restrictions still in force under section 2 of this article. Five years after the date on which the Fund begins operations, and in each year thereafter, any member still retaining any restrictions inconsistent with Article VIII, sections 2, 3, or 4, shall consult the Fund as to their further retention. The Fund may, if it deems such action necessary in exceptional circumstances, make representations to any member that conditions are favourable for the withdrawal of any particular restriction, or for the general abandonment of restrictions, inconsistent with the provisions of any other articles of this agreement. The member shall be given a suitable time to reply to such representations. If the Fund finds that the member persists in maintaining restrictions which are inconsistent with the purposes of the Fund, the member shall be subject to Article XV, section (a).

##### Section 5. Nature of transitional period.

In its relations with members, the Fund shall recognize that the post-war transitional period will be one of change and adjustment and in making decisions on requests occasioned thereby which are presented by any member it shall give the member the benefit of any reasonable doubt.

Mr. MACDONNELL: I have read the portion of the bill, and I shall not, perhaps, bring it up now unless you desire it. I prefer to wait a little time.

*By Mr. Fleming:*

Q. May I ask Mr. Rasminsky for a definition? He used the expression, in an answer he gave before, "moneys raised in an unofficial market". What is an unofficial market?—A. What is an unofficial market? I think I can give the explanation of an unofficial market by defining the official market. The official market in exchange is conducted by the Foreign Exchange Control Board through the Canadian monetary system. In the official market, or through the official market, the Foreign Exchange Control Board provides United States dollars for all current account transactions with the United States and the United States dollar area, which is the only area which comes into consideration in connection with the unofficial market. The appropriate currency in United States dollars. The Foreign Exchange Control Board stands ready through the Canadian banking system to provide United States dollars for all imports into Canada, and for all other American transactions including personal expenditures, interest on dividend payments to residents of the United States dollar area. In addition, the Foreign Exchange Control Board, through the Canadian banking system, provides United States funds to meet capital debts which are expressed in terms of United States dollars at their maturity. If the obligations of any Canadian corporation, including the provinces, or of course the Dominion government, fall due and those obligations are expressed in terms of United States dollars, the debtor corporation can purchase United States dollars from a Canadian bank at the Board's official rate, and, of course, that money comes out of the Board's reserve of United States dollars. On the other side, Canadians who export to the United States dollar area are required under the Foreign Exchange Control Board's regulations to obtain a counter value of United States dollars for their exports. In principle those United States dollars are sold to a Canadian bank and the sales come under the control of the Foreign Exchange Control Board. I say "in principle" because the Board has authorized a very large number of corporations which have both import and export transactions to maintain in their own name United States dollar bank accounts to save them the trouble of selling the proceeds of the export to the Board and then buying from the Board the United States funds that they require to pay for imports. So that one can see that transactions with the United States dollar area are also conducted in terms of United States dollars.

Now then, what does this exclude? It excludes certain types of capital transactions on the supply side in the unofficial market, by which I mean the Canadian dollars that are available or sold in the unofficial market. There are two main elements on the supply side: (a) Canadian dollar balances in bank accounts which non-residents, broadly speaking Americans, held in Canada at the beginning of exchange control. At the beginning of exchange control Americans were holding rather substantial amounts deposited in Canadian banks. The Foreign Exchange Control Board does not recognize any obligation to convert those Canadian dollar deposits of Americans into United States funds at the official rate. For a while, at the beginning of the exchange control period, in order not to impose any hardship on Americans who had a small amount of savings in the form of deposits in Canadian banks, the Foreign Exchange Control Board converted the first \$5,000 of any deposit in a Canadian bank into United States funds at the official rate, but by May or June of 1940 it was felt that everyone who wanted to take advantage of that provision had had ample time in which to do so and that \$5,000 provision, which I have just mentioned, was withdrawn. So one has on the supply side on the unofficial market first the existing Canadian dollar balances which were held by non-

residents at the beginning of the exchange control period. The second main item is further additions of the supply of Canadian dollars. They arise mainly with respect of certain types of capital payments for which the Board recognized no obligation to provide foreign exchange. For example, an American holding a purely domestic security, a purely domestic Canadian security, let us say Dominion government bonds or provincial or corporation bonds which mature, would get Canadian dollars. The Foreign Exchange Control Board has never recognized any obligation to convert these Canadian dollars into United States funds at the official rate, by taking funds out of the official reserve. The position has been taken that the American who bought these Canadian securities was buying a Canadian obligation and he did not acquire any right to be paid in United States dollars. That is one type. A further addition that has been made to the supply of Canadian dollars available for transfers in the unofficial market would be the American sales on real estate in Canada; the American would get Canadian dollars only.

Those two sources provide the supply of Canadian dollars which are in the hands of United States residents. All transactions in the unofficial market are entirely transactions between non-residents. The use of Canadian dollars acquired in the unofficial market is, of course, restricted by the limitations that we impose on Canadians. For example, Canadian dollars acquired on the unofficial market could not be used by Americans to pay for exports, because we insist on payment in United States funds. If, however, an American investor wants to buy Canadian domestic securities payable only in Canadian dollars, he can make payment for those securities in the form of Canadian dollars acquired through the unofficial market. Tourists coming to Canada can obtain Canadian dollars that they want to spend through the unofficial market. For the last couple of years there has been no advantage in doing so, because the rate in the unofficial market has been within the spreads between the Boards buying and selling rates for United States funds. It has been right on the official rate. There have been times, of course, when the unofficial market was quoted at a quite substantial discount below the official rate. Back in 1940 and 1941, and at the present time since the return of the Canadian dollar to par, when United States have been at a considerable discount, a discount of 1 or 2 per cent; more the discount in the quotation in the unofficial market as compared with the rate in the official market.

Q. It comes down to this then that the unofficial market is a live market so far as transactions are concerned between non-residents and outside, transactions carried on outside of Canada between people who might be quite well off in their position with respect to Canadian funds?—A. That is exactly it.

*By Mr. Quelch:*

Q. Is the action of the Canadian government in setting the Canadian dollar at par with the United States dollar in accordance with the provisions of the relative section of the International Monetary Fund agreement; or, would it be a violation of the restrictions placed on such actions during the transitional period?—A. In reply to that, I would refer you to the statement which the minister made on Friday night, July 5, in which he announced the decision of the government to change the valuation of the Canadian dollar. In his statement of July 5, the minister said—

Mr. FLEMING: Would you be good enough to give it to us from Hansard? If you read it out of Hansard it will be easier for us to follow on the record.

The WITNESS: At page 3233 of the unrevised edition of Hansard of July 5, Mr. Ilesley, Minister of Finance, said the following:—

There are a number of further points I should mention, to avoid misunderstanding, I would not want anyone to think that by this action we

were conflicting with the rules of the international monetary fund or using up our freedom of action to make other changes at a later time if we saw fit to do so. We propose to notify the fund that the new rate is the proper initial rate for Canada at the time the fund commences to operate. We believe that the circumstances are such as to make this new rate acceptable to the fund as the initial rate for the Canadian dollar. In such event we retain the same freedom as any other member to move the rate later up or down by as much as 10 per cent without the fund's approval, and by other amounts in accordance with the provisions of the fund agreement, if circumstances should arise which made such a move on our part seem necessary and desirable.

*By Mr. Quelch:*

Q. That is subject to the regulations of section 5 of article IV, that during the transitional period no country shall change the value of its currency?—A. No, sir. A country is free to do that within the ordinary limitations.

Q. I thought the transitional period was intended to prevent a move of that kind?—A. No, sir. The obligations from which members of the fund are released during the transitional period are stated in article XIV, section 3, in these terms:—

Sec. 3. Notification to the Fund.—Each member shall notify the Fund before it becomes eligible under Article XX, Section 4 (c) or (d), to buy currency from the Fund, whether it intends to avail itself of the transitional arrangements in Section 2 of this Article, or whether it is prepared to accept the obligations of Article VIII, Sections 2, 3 and 4. A member availing itself of the transitional arrangements shall notify the Fund as soon thereafter as it is prepared to accept the above-mentioned obligations.

The obligations under Article VIII, sections 2, 3 and 4 relate to avoidance of restrictions on currency payments, avoidance of discriminatory currency practices, and convertibility of foreign held balances; and they do not relate to the exchange rate.

*By Mr. Fleming:*

Q. I have a general question arising out of an article in this morning's press. I have before me the *Globe and Mail* of this date containing a report on the new United States loan to Britain to which Congress gave final approval last Saturday. The article states:—

Britain agrees:

1. She will not discriminate against American products, in any of her controls on goods she imports.

2. For any goods or services purchased in the United States Britain will pay in dollars or, if payment is made in pounds, American exporters will be able to convert the sterling into dollars.

3. Within a year, unless the United States agree to a temporary extension, Britain will remove all the restrictions on changing pounds into dollars for ordinary business deals. (During the war Britain, to save her supply of American dollars, had restrictions on changing pounds into dollars.)

4. Also Britain will dissolve the sterling area dollar pool. During the war Britain through a tieup with other countries close to her, had a deal whereby they pooled their dollars.

5. Britain agrees to support the American proposal for an international trade organization to reduce trade barriers and eliminate trade discriminations.

I would strictly like Mr. Rasminsky to comment on the third paragraph there. I take it there is no relation between that and the government proposal to establish a Foreign Exchange Control Board? Let me read it again:

3. Within a year, unless the United States agrees to a temporary extension, Britain will remove all of the restrictions on changing pounds into dollars for ordinary business deals.

Now, it is true there is only a 1 to 10 chance in what may be a long term agreement. I wonder if Mr. Rasminsky would give us his comments on that term in the agreement. I think he is familiar with the terms of the agreement. Would he indicate from what date that has reference, item 3?

Mr. QUELCH: A supplementary question: does that mean that Britain is cutting down her transitional period to one year in so far as restriction is concerned?

The WITNESS: Before taking that up I would like to quote the text of the agreement itself on the obligation to remove all restrictions on changing pounds into dollars for ordinary business deals. It is contained in Article 7 of the financial agreement between the United Kingdom and the United States, which reads as follows:—

#### 7. STERLING AREA EXCHANGE ARRANGEMENTS

The Government of the United Kingdom will complete arrangements as early as practicable and in any case not later than one year after the effective date of this Agreement, unless in exceptional cases a later date is agreed upon after consultation under which, immediately after the completion of such arrangements, the sterling receipts from current transactions of all sterling area countries (apart from any receipts arising out of military expenditure by the Government of the United Kingdom prior to December 31, 1948, to the extent to which they are treated by agreement with the countries concerned on the same basis as the balances accumulated during the war) will be freely available for current transactions in any currency area without discrimination; with the result that any discrimination arising from the so-called sterling area dollar pool will be entirely removed and that each member of the sterling area will have its current sterling and dollar receipts at its free disposition for current transactions anywhere.

Mr. BLACKMORE: Pardon me, but what are you reading there?

The WITNESS: I am reading from the financial agreement between the United Kingdom and the United States which has just been ratified by Congress. As to the effective date of the agreement, the effective date of the agreement will be July 13, 1946.

Then, in Article 8, under the heading "Other Exchange Agreements":—

(ii) The Governments of the United States and the United Kingdom agree that, not later than one year after the effective date of this Agreement, unless in exceptional cases a later date is agreed upon after consultation, they will impose no restrictions on payments and transfers for current transactions. The obligations of this paragraph (ii) shall not apply:—

- (a) To balances of third countries and their nationals accumulated before this paragraph (ii) becomes effective; or
- (b) To restrictions imposed in conformity with the Articles of Agreement of the International Monetary Fund, provided that the Government of the United Kingdom and the United States will not continue

to invoke the provisions of Article XIV, Section 2, of those Articles after this paragraph (ii) becomes effective, unless in exceptional cases after consultation they agree otherwise:

Now, Mr. Fleming has asked me to comment on these articles. I am not quite clear what type of comment he wishes me to make.

Mr. FLEMING: In relation to the principle of the bill to establish this control. And now, I have not seen the whole terms of the agreement, but the clause that Mr. Rasminsky has read seems to be in harmony with foreign exchange control, with the provision as required to meet all current transaction, probably something like what we have in sections 25 and 26 of this bill; but I would not want, having just heard the clause read once, to assume that that is the only meaning capable of being drawn from it. How does this relate to the establishment or continuance of the existing foreign exchange control system between us and the United States?

I am concerned also with the relationship of this period of one year to the suggestion that has been discussed here in regard to putting a term on the effects of this Foreign Exchange Control Board bill and also in relation to the point Mr. Quelch raised of its relationship with the transitional period under Bretton Woods.

The WITNESS: There is certainly nothing in the Anglo American loan agreement which prevents the United Kingdom from operating a system of exchange control which is designed to control capital movements. I think the articles I read out ensure two things, first, that the United Kingdom will not import goods from the United States and then make payment to a blocked account. That actually is not done anyway but she is now bound under the agreement not to do it. They also ensure that within a period of one year, unless by agreement between the United States and the United Kingdom that period is extended, any country which exports to the United Kingdom, which has a net favourable balance in its transactions with the United Kingdom, can spend that net favourable balance in any part of the world. In other words, it ensures convertibility of foreign countries fresh acquisitions of sterling on current account. To answer Mr. Quelch's question, I think I am right in saying it does have the general effect that so far as the United Kingdom is concerned, unless there is a special agreement between the United Kingdom and the United States, the transitional period under Bretton Woods is shortened to a year.

*By Mr. Quelch:*

Q. Did not Britain also agree to the proposals of the United States for expansion of world trade?—A. I think the United Kingdom government has endorsed the proposals in general terms.

Q. To that extent anyway any foreign exchange control board which might be established would be definitely limited by the proposals under that, would they not? The Foreign Exchange Control Board would be definitely limited under that? It would need power to place restrictions against imports?—A. I do not know what the United Kingdom would do, but I assume that their legislation would be drafted in such a way that it was consistent with their international obligations. I should like to add this to the answer I have already made, that the question of the significance of the convertibility of sterling, which is established in the loan agreement, depends, of course, on two things. It depends first on what British import policy actually turns out to be, because there is nothing in the Bretton Woods agreement which requires any degree of liberality or any degree of illiberality in the import policy of any country.

*By Mr. Macdonnell:*

Q. Would it be correct to say that from collateral conversations and these documents there is a strong presumption or, at any rate, the strongest sort of

moral pressure on Britain to pursue a liberal policy?—A. Well, the import policy the United Kingdom can pursue must be conditioned by her external resources, and I have seen no indication that the United Kingdom regards the magnitude of the American credit, and the other external credits which she has obtained, as being such that she can pursue a very expansive import policy.

Q. Would I be right in saying that the agreement, if it was an agreement, to meet in a trade conference which was to have taken place this year, and is now postponed, was supposed to be all with a view to a freeing of policies? Is that not the declared objective of that?—A. I think the general purpose of the negotiations that you have spoken of is in the direction of liberal trade policies.

Q. Would it not be correct to say that the United States made it very clear that one of their great objections to making a loan was that they counted on such policies resulting from the trade conference?—A. I think that is right. The only point I am making is that the ultimate determinant of a country's import policy will be the amount of exchange she has available, and I have seen no indication from the United Kingdom that they feel that the amount of exchange which is available through these credits is such that they can abolish their import restrictions and carry out what we might call a liberal import policy. I saw in a paper yesterday that there was a statement by Mr. Dalton, the Chancellor of the Exchequer, to the general effect that the fact that the loan had now been ratified did not mean that the United Kingdom was able to do away with all import controls.

*By Mr. Quelch:*

Q. Mr. Rasminsky—A. Will you excuse me, because I have not completed the answer to the question that Mr. Fleming asked? It related to the significance of the one-year period. The first point I have made is that the significance of convertibility of sterling depends upon how much sterling countries get, and that is in turn—

*By Mr. Blackmore:*

Q. How much what?—A. How much sterling they get as a result of United Kingdom imports, and I say that in turn depends upon two factors. One is the question of United Kingdom import policy. How much goods is the United Kingdom going to import? The second is how are United Kingdom imports going to be financed? If you take the case of Canada in her relations with the United Kingdom, parliament has voted a credit of 1,250 million dollars which can be drawn upon by the United Kingdom to finance purchases up to a certain date. I think it is 1951. That means, of course, that Canada will not be receiving sterling for those exports, and not having sterling we will have nothing to convert into United States dollars to meet the adverse balance with the United States or with any part of the United States dollar area. This is not an estimate but an assumption: let us assume that over the next five years our favourable balance with the United Kingdom is a billion and a quarter dollars. That will mean that we will have financed the whole of our favourable balance with the United Kingdom or, to put it the other way, Canada will have financed the whole of the British deficit in her balance of payments with Canada. We will have financed it in Canadian dollars. We will have no surplus sterling to convert, and so far as the relationship between convertibility of sterling and Canada's position vis-a-vis the United States, which is the determining factor, as I understand it, in the government's decision to introduce a foreign exchange control measure, sterling might as well not be convertible.

*By Mr. Macdonnell:*

Q. Take that last part again. The determining factor in the government's decision was what?—A. The determining factor in the government's decision—

and one of the factors which has been alluded to—is Canada's United States dollar position, Canada's tendency to have a deficit on our current account transactions with the United States, and the question of possible capital transactions with the United States. The point I am making is that whatever the convertibility obligations of the United Kingdom may be under the loan agreement, if Canada is financing the whole of her surplus with the United Kingdom through the Canadian dollar credit those obligations will have no great significance so far as Canada's immediate U.S. dollar position is concerned.

*By Mr. Quelch:*

Q. You stated that you thought Britain would adopt a liberal policy in regard to imports. On the other hand, Britain in order to meet her obligations in the repayment of the 1,200 million dollars from Canada, and the 3,500 million dollars from the United States will in the future have to maintain a large favourable balance of trade in order to pay those obligations, and if she is not able to pay it then is there not a probability she will have to restrict her imports?—A. If what you are saying is that international debt can only be repaid through the movement of goods, and that there are two possible ways of attempting to create a surplus of exports, which is necessary to repay debt, namely, the expansion of exports or contraction of imports, then I agree with you. I think your statement is quite correct.

Q. I noticed that the statement was made in their House by several members speaking on the loan to the effect that England, in order to meet her obligations and finance imports, would have to expand exports by approximately 75 per cent. She can only do that provided other nations are willing to buy to that extent, and if other nations are not prepared to do that would not England be forced to adopt a policy of economic nationalism to a certain extent?

Mr. FLEMING: Or borrow more.

Mr. QUELCH: That will not solve the problem. If she goes further in debt her obligations increase.

Mr. IRVINE: How would that affect this bill?

*By Mr. Macdonnell:*

Q. I wanted to ask one question. Assuming that this expectation of the transitional period being shortened to one year between Britain and the United States would that, in your opinion, have an effect on the appropriate duration of this bill? Would that affect our situation?—A. For the reason that I have just given I do not think that it would. What is the significance of the transitional period so far as we are concerned? The significance is that other countries do not have the obligation to convert surplus balances that we may acquire with them as a result of a surplus of exports into, let us say, United States dollars to help us to meet our imports from the United States.

*By Mr. Quelch:*

Q. Is that for five years?—A. I did read out before the provisions regarding the transitional period. Members have to consult with the fund after a five year period if they want to retain any such restriction.

Q. I mean in regard to the Canadian loan. I thought Britain did not have to make any payments for five years?—A. That is right. If the situation was that over the next five years Canada was going to have large amounts of surplus sterling that we could convert into United States dollars to help meet adverse balances with the United States then that would be a factor to be taken into account in considering what Canadian exchange policy should be,

and in so far as one was basing this measure on the uncertainties of the transitional period it would be an important relevant consideration. But the fact of the matter is that Canada has extended a loan of a billion and a quarter dollars to the United Kingdom. Consequently we are going to have a large favourable balance with the United Kingdom but we are not going to have any large amount of surplus sterling to convert into United States funds. Hence the convertibility of sterling will, in quantitative terms, mean much less to us than if we were dealing with the United Kingdom on a cash basis.

Q. That is for the period of five years you have in the agreement?—A. It is for the period during which the credit is used, which may be as much as five years.

*By Mr. Macdonnell:*

Q. Do I correctly infer from what you have said you are assuming all Britain's purchases from us over the next five years or, at any rate, the next \$1,250,000,000, will entirely be met— A. No, I am sorry if I gave that inference. I certainly meant to say to the extent they are met through the credit, and there is no doubt that the great bulk of the British deficit with Canada will be met out of the credit.

*By Mr. Jackman:*

Q. Suppose things turn out better for the United Kingdom than is expected at the moment in the way of exports and availability of foreign exchange to pay for her imports. Let us assume that two years from now Britain has available a good many American dollars for payment of imports from the United States. Why is it not possible that Britain may pay us in sterling over and above the amount of sterling necessary for us to pay Britain for any imports that we make from her so that we have sterling for sale to New York which the Americans will buy? If that is not the case how are we in Canada going to balance our very heavy adverse balances with the United States which we formerly balanced by the sale of sterling for American dollars in the New York market? Is it not possible that Britain may not use all these credits? It may not look that way at the moment, but if exports from the United Kingdom are particularly good it may be she will pay us in sterling which we in turn can sell in New York. If that is not the case how is Canada going to acquire United States dollars to balance its persistent deficiency in that market?

The CHAIRMAN: I wonder if you would give that reply later. Shall we continue until 1.30 or adjourn until 4 o'clock?

(Discussion re adjournment).

—the committee adjourned at 1.05 p.m., to meet again at 4 o'clock p.m.

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#### AFTERNOON SESSION

The committee resumed at 4 o'clock p.m.

The ACTING CHAIRMAN: As I stated this morning we are on section 2, clause 4. In fact, I think we touched on clause 5 last Friday.

Mr. RINFRET: Here is somebody who would like to know what a blocked dollar is.

Mrs. STRUM: It is a term that was used this morning several times, and I seemed to be the only person who did not know what it was. At least, no one else asked. Did you use the term "blocked dollar"?

The WITNESS: I am afraid I did.

*By Mrs. Strum:*

Q. Would you mind explaining it?—A. Not at all. A blocked dollar in the sense in which I used the term this morning would be a bank deposit in the name of a non-resident which the non-resident was not able to do anything with. That is to say, it would be completely frozen money. The non-resident would simply have a Canadian dollar bank account and he could not draw against that account for any purpose. In the administration of Canadian foreign exchange control it has been possible to avoid anything in the nature of such blocked accounts in the names of non-residents.

*By Mr. Macdonnell:*

Q. Is it always true in such cases that the non-resident could not draw against that fund for use in the country where it is blocked?—A. There are various rules that could be applied to the unblocking of blocked currency, but currency which is blocked is currency that cannot be drawn out. It could be unblocked for certain purposes such as the acquisition of investments in the country.

Q. But for the moment?—A. But for the moment it cannot be drawn on. It is blocked.

Mr. JACKMAN: I think the witness was going to answer a question which I put to him.

Mr. IRVINE: A little louder.

Mr. JACKMAN: I have some water in my head from swimming which gives me the appearance of a cold.

*By Mr. Jackman:*

Q. I asked the witness before adjourning at noon hour what would be the position of Canada if she had no sterling to sell to the United States during the next four or five years when we might be buying far more from the United States than we would sell to them but, on the other hand, we would sell more to Great Britain than we would buy. In the old days we used to sell that sterling to New York. Now with all these government credits between the United Kingdom and our country and the United States sterling may not be as freely available for sale to New York or they may not be taking it there. What I asked the witness was how is Canada going to pay for this persistent debtor balance vis-a-vis the United States presuming we do have that unbalance?—I think that the answer to your question is that the position of Canada in those circumstances is difficult exchange-wise. If, in fact, we do not have any surplus sterling to convert that means that as regards our dollar position we must rely upon our direct transactions with the United States and the other countries with which we deal in terms of dollars to meet our outlays of American dollars. I should have thought from the statements which the minister has made that it was precisely because that position is difficult that the government took the decision to introduce this foreign exchange control measure to ensure that, at any rate, unnecessary outlays of United States dollars for capital purposes were not made.

*By Mr. Irvine:*

Q. In other words, the position posed by the member would not be induced by this legislation?—A. No, nor, of course, would the situation which Mr. Jackman has taken be induced by the fact that our exports to the United Kingdom are financed by government credit. If government credits were not available, then the international financial position of the United Kingdom being what it is, it would seem to me the only reasonable deduction one can

make is that Canada would not export to the United Kingdom, so that the question of credits is relevant to the amount that we export to the United Kingdom.

*By Mr. Macdonnell:*

Q. You have not mentioned borrowing to offset the discrepancy? I suppose that is in the picture, too?—A. In referring to the question of credits I had borrowing in mind.

*By Mr. Blackmore:*

Q. Borrowing from the United States?—A. Oh, borrowing from the United States?

Q. I think that is what the hon. member had in mind.—A. I beg your pardon. I am sorry. There are in effect two other sources apart from our current transactions with the United States out of which a deficiency in our balance of payments with the United States might be met. One source is out of our accumulated reserve of United States dollars, which at the end of 1945 amounted to approximately a billion and a half dollars, and the other possible source out of which a deficiency might be met would, as you say, be borrowing in the United States.

*By Mr. Macdonnell:*

Q. Would it be a fair question to ask what might be expected to be the annual deficiency if we did not have sterling available as between the United States and us; is it \$200,000,000 or \$500,000,000?—A. The question is not an unfair one to ask, Mr. Macdonnell; but I am afraid I do not know what the answer to that question is. Perhaps the closest I could come to that would be to tell you what our annual deficiencies with the United States have been over a period of time, if you want that information.

Q. Would that include the amount of sterling there was there; or, would it give us the answer we are seeking now?—A. No, sir. This will be in bilateral transactions.

MR. MACDONNELL: Well then, don't bother very much with it.

MR. BLACKMORE: That is a good thing to have; I would like to have it put on. I think Mr. Rasminsky is ready to put it on.

THE CHAIRMAN: Do you wish to put that on the record now?

THE WITNESS: Just as you wish, Mr. Chairman. I have it here.

MR. MACDONNELL: If he has it prepared we may as well have it.

THE CHAIRMAN: Yes. We will have the answer put on the record now. It will save having it done again later on.

MR. BLACKMORE: There is one difficulty, Mr. Chairman; I think members of the committee have noticed that it is almost impossible to get copies of the record. I don't think copies of our first sitting have been received by members of the committee to date.

THE WITNESS: The figures which I am about to read to you are from a publication of the Dominion Bureau of Statistics called "The Canadian Balances of International Payments, 1926-1944", and they relate to the net current account deficit including all net exports of non-monetary gold between Canada and the United States. The figures given are in millions of dollars.

MR. BLACKMORE: And that is adverse?

The WITNESS: Adverse, generally they will be adverse. In any case where it is not I will indicate it.

1927 .....	248	1936 .....	1
1928 .....	349	1937 .....	77
1929 .....	437	1938 .....	149
1930 .....	344	1939 .....	116
1931 .....	208	1940 .....	292
1932 .....	168	1941 .....	318
1933 .....	113	1942 .....	108
1934 .....	80	1943 .....	19
1935 .....	29	1944 .....	17x

That 1944 figure is a favourable balance, the only one in the series.

Mr. QUELCH: Are these trade balances or payments?

The WITNESS: These are net current account payments. They include all current account items.

Mr. JACKMAN: No definite accounts in any way?

The WITNESS: No.

*By Mr. Blackmore:*

Q. They do include such matters as interest, do they not?—A. Yes. I think probably I should read this for the record: They include the following net balances:—

The net balance of merchandise trade;  
 net balance of non-monetary gold;  
 net tourist and travel expenditures;  
 net interest and dividend payments;  
 net freight and shipping payments;  
 and the net of all other current account transactions.

Q. And this is the balance of payments?—A. This is the net balance of payments on current accounts.

*By Mr. Quelch:*

Q. While we will not have sterling to offset any balance of trade we will have credits in many other countries that are members of the monetary fund and those credits can be converted into American dollars?—A. Oh, yes. We shall have. I am glad you mentioned that, Mr. Quelch, because in saying before that there were two methods in which we could cover our deficiency I neglected to mention the third, which is our drawing power under the Bretton Woods agreement. That, as you know, amounts to \$300,000,000; and it is, as you say, the case that members of the International Monetary Fund which are discharging fully their obligations under that fund agreement, and not taking advantage of the transitional period arrangement, must make the proceeds of current account transactions convertible; so that if we had a net favourable balance with some country other than the United States and that country was discharging fully its obligations under the fund agreement, the net balance with that country in question would be available to meet our deficiency with the United States.

*By Mr. Macdonnell:*

Q. Let me make quite sure that I understand this last big year, 1927, when the deficiency was \$248,000,000?—A. That means that we made that amount of current payments of all sorts to the United States in excess of the amount of current payments of all kinds that they made to us.

Q. In other words we had \$248,000,000 of an adverse balance that year?—

A. That is right, sir. Yes.

Q. And we made those payments. How did we do it?—A. We did it because in the same year we had with the United Kingdom a favourable balance of \$257,000,000.

Q. And on the whole triangle we were a little ahead?—A. That is right, yes.

Q. Could we get a general statement over a period of years showing what our total deficiency over a period was so we would get an idea of what our problem might be? Take whatever years you like which you consider typical years, if there are any. It take it that the war years were not typical.—A. Mr. Macdonnell, if you will look at the Foreign Exchange Control Board report, table 2 on page 6, you will see Canada's net current account balances with the United States, Europe and the United Kingdom from 1926 to 1939. Those are figures which might possibly serve your purpose.

Q. Yes.

Mr. JACKMAN: We would generally be a debtor country on current accounts?

The WITNESS: In our balances with the United States, Mr. Jackman; but overall for some time we have tended to have a net surplus in current account balances of payments.

*By Mr. Macdonnell:*

Q. I do not want to get too far afield on this, but it is interesting to read this statement from 1932 to 1939; and you say we started off in 1927 with an adverse balance of \$248,000,000.—A. You have to bear in mind there, Mr. Macdonnell, that the figures to which you are referring are annual averages, so I think you have to double the 120, the 35 and the 130.

Q. Oh, yes, I see what you mean, they are averages.—A. You have to double the first two, and treble the others in the period 1932 to 1939, and that is \$725,000,000.

Q. Then that, compared to the million and a half you have now is not a terrifying figure.—A. These figures, of course, relate only to the current accounts.

*By Mr. Fleming:*

Q. On that subject of the net international balance of payments, what is going to be the situation in the light of what remains of the sterling block, and in the light of the new United States loan to Great Britain? Is it going to be possible for a country like India or Egypt to obtain, if it is United Kingdom policy, a benefit to any part of that United States dollar credit in that loan; and, in the event, would that improve their exchange position with Canada?—A. I think one has to try to answer that question in two parts. The countries that you mention, such as Egypt and India, have large accumulated sterling balances which are held in the form of bank deposits in London and which constitute the greater part and the most troublesome part of the British debt at the present time. The most recently published figure of those balances indicates that they are in the neighbourhood of \$14,000 million.

Q. Is that quoted in United States dollars?—A. That is in terms of United States dollars, yes; or Canadian dollars it would be equivalent to that amount of Canadian dollars at the present time. Of course, they are held in sterling. What that means is that there are balances of £3½ billion lying to the credit of countries of which Egypt and India are typical cases and the largest holders of sterling balances. The Anglo-American loan agreement provides that no part of the \$3½ billion credit is to be used by the United Kingdom to liquidate

that indebtedness to members of the sterling area. Section 6, subsection (i) of the financial agreement between the United Kingdom and the United States which reads as follows:

It is understood that any amounts required to discharge obligations of the United Kingdom to third countries outstanding on the effective date of this agreement will be found from resources other than this line of credit.

So that the American loan cannot be used to liquidate this vast indebtedness to countries in the sterling area which takes the form of accumulation of sterling obligations. However, the United Kingdom undertakes in section 7—which is the section I read this morning—that within one year after the effective date of the agreement, unless by consultation with the United States that date is postponed, they will put into force arrangements under which the sterling receipts from current transactions with all sterling area countries, with certain exceptions that I read out this morning, will be freely available for current transactions in any currency area without discrimination.

That means that if a country like India or Egypt or any other country which is a part of the sterling area, has a favourable balance in its current account transactions with the United Kingdom in the future, or rather when this obligation accrues, that country will be able to spend that favourable balance in any part of the world, including Canada or the United States.

Q. There is going to be a serious situation there. It may have, one would think, very great dangers in the outlook of international trade. If you get that great volume of credit, as it stands at the present time, or let us say the indebtedness by the United Kingdom to these countries in the sterling bloc area and they are going to get no benefit out of the loan from the United States to try to liquidate that indebtedness, that means, does it not, that the United Kingdom is going to have to shape its external trade policy and its credit policies in such a way as to establish the most favourable possible balance with those nations that are now members of the sterling bloc regardless of other countries—well, perhaps one should not say regardless of, but in that way you might have a very serious effect on its trade relations with countries like Canada that are outside the sterling bloc?—A. Well, by virtue of signing the Anglo-American loan agreement and obtaining the benefits of the agreement and by virtue of signing the Bretton Woods agreement, the United Kingdom has undertaken not to engage in certain types of currency practice which might, in the absence of those agreements, have had the effect of creating a discriminatory trade system as between the United Kingdom and the rest of the sterling area. In the Anglo-American loan agreement the United Kingdom has stated its intention, and I am quoting now from article 10 (i) of the financial agreement between the United Kingdom and the United States:—

The government of the United Kingdom intends to make agreements with the countries concerned, varying according to the circumstances of each case, for an early settlement covering the sterling balances accumulated by sterling area and other countries prior to such settlement.

I am now omitting a parenthesis which does not affect the main point here.

The settlements with the sterling area countries will be on the basis of dividing these accumulated balances into three categories:

- (a) Balances to be released at once and convertible into any currency for current transactions,
- (b) Balances to be similarly released by instalments over a period of years beginning in 1951, and
- (c) Balances to be adjusted as a contribution to the settlement of war and post-war indebtedness and in recognition of the benefits which

the countries concerned can be expected to gain from such settlement. The government of the United Kingdom will make every endeavour to secure the early completion of these arrangements.

It is the case that the British external position, even with the American loan and the Canadian loan and certain other credit arrangements that have been made, is a very difficult one in the light of these very large external liabilities, in the light of the deterioration that has taken place in the course of the war in the current account position in British exports, in the light of the very large consumption deficiencies in the United Kingdom which call for unusually large imports in the course of the next couple of years.

Q. It sounds to me like a pretty serious situation. You have in the Anglo-American loan agreement one provision which says that that credit shall not be used by the United Kingdom to liquidate its indebtedness to the sterling bloc area. That is what it says in effect. Then you have a second provision in the same agreement to the effect that the United Kingdom shall not pursue trade policies which will have, in the result, the effect of continuing the sterling bloc. You have got the Canadian loan which has not got any strings attached to it. The United Kingdom being deprived of any possibility of using the American credit to liquidate its indebtedness to the sterling bloc, I take it that it is at liberty, if it chooses to do so, to use the Canadian credit for that purpose under the Canadian loan agreement, or the alternative will be that that indebtedness of the United Kingdom to the sterling bloc will become, it might be, a frozen indebtedness, but it is always going to be a problem that will have a direct relation, in view of its tremendous size—£3½ billion—to United Kingdom trade policy. Our economy being dependent to the extent it is upon our export trade, and our trade relations to the United Kingdom being so close, it is hard to see how we can escape from serious effects from maintaining, even in frozen form, the huge indebtedness of the United Kingdom, to the sterling bloc.—A. I agree with you, Mr. Fleming, that the strained financial position of the United Kingdom has a very serious import so far as Canada is concerned. As regards to possible liquidation of the frozen sterling balances, the Anglo-American Loan Agreement provides that the credit shall not be used for that purpose. There is, of course, no prohibition in the loan agreement against the United Kingdom using the proceeds of their current account transactions with the United States for the purpose of releasing part of the credits; nor is there any prohibition against her using her accumulated reserves of gold or United States dollars. I say that just to clarify the position on the general point that this situation is a serious one for Canada. I think that Canadian interests would be served by the development of an international economic situation, and an international economic policy which enabled the United Kingdom to work out of that position.

Mr. FLEMING: The United Kingdom in all probability is going to have, as it has had for years, an unfavourable balance of trade with the United States. In all probability it is going to have very little opportunity of building up any reserve or surplus in its trade relations with the United States to liquidate that indebtedness to the sterling bloc. Here in Canada it looks to me as though our prospects of being repaid the loan which we made to the United Kingdom are very slim and our prospects\* of trade with the United Kingdom on a large scale are very problematical, the outlook being as it is right now.

Mr. IRVINE: What point of the bill does this discussion come under?

Mr. BLACKMORE: Could we have Mr. Rasminsky's answer first?

The ACTING CHAIRMAN: Referring to your question, Mr. Irvine, I can only repeat what we said in the early portion of this meeting; we are still on section 2, clause 4 of the bill. This discussion is very interesting, but I do not know how closely it is connected with the particular section.

Mr. IRVINE: As long as it is connected with something, that is all right.

Mr. FLEMING: Mr. Chairman, would it be possible for you to arrange for members of the committee to be furnished with copies of the Anglo-American Loan Agreement, and also with D.V.S. return, containing the figure quoted on international balance.

Mr. JACKMAN: You might add the foreign exchange control regulations.

The ACTING CHAIRMAN: I think, Mr. Fleming, that copies of those reports are available, and I shall endeavour to have them distributed to the members.

Mr. JACKMAN: I suggest that the foreign exchange control regulations in the printed pamphlet form be included as well.

The WITNESS: We can certainly make some copies of the regulations available to you.

Mr. TARR: Yes, we can make some copies available; I do not know how many we have.

Mr. JACKMAN: Mr. Fleming's discussion points out some of the great difficulties to our country in connection with international trade and currency accounts. I would bring out Mr. Rasminsky's point about which I asked him a question at the opening of this session, which pointed to a very good reason why it might be necessary for Canada to have a Foreign Exchange Control Board, namely, that over the next four or five years Canada might find itself very short of American funds to pay for its imports from that country. Therefore, there should be some controlling force in regard to how the available United States currency was used, that is, the currency owned by Canadians.

However, I would like to ask him what the effect of capital account might be, namely, if Americans, who had at some time at least looked upon Canada as being a very fertile field for investment, perhaps the most fertile in the world, are still sending money up here. That would materially ease our situation, particularly if it became a strained situation over a term of years. So anything we could do to facilitate that investment and to encourage it would be for the benefit of Canada, particularly for this short term period. That brings me to the answer which you gave this morning, when you said that when our exchange was frozen in 1939, the zero hour, you called it—

Mr. BLACKMORE: I wonder if Mr. Jackman would permit a question of his question?

Mr. JACKMAN: Yes.

Mr. BLACKMORE: I wonder if it is true, in your case, that the provision of American dollars to buy Canadian securities will in fact ease the situation rather than aggravate it?

The ACTING CHAIRMAN: You will not misunderstand me when I say that you should in future address your questions to the chairman instead of to Mr. Jackman. It is just that I want to keep the proceedings as nearly in order as possible. I had the same thought in mind that you had, because, according to the remarks that were made last Friday, the question arose about our indebtedness to the United States, as shown by the total.

Mr. BLACKMORE: Mr. Jackman made a statement which, in my judgment, was not entirely correct, so I did not want it to go through without being straightened out. It has got to be recognized that this money coming into Canada constitutes a liability to Canada.

Mr. JACKMAN: I will give you an example, Mr. Blackmore.

The ACTING CHAIRMAN: Will you please allow the witness to go on.

Mr. JACKMAN: I had not finished my question when I was interrupted.

Mr. BLACKMORE: With your permission.

Mr. JACKMAN: I shall ask it later, if I may. The question concerned those Americans who had invested in Canada prior to the zero hour, in 1939. While they have been allowed, under board rulings, to change their investments in Canada within the domestic field, they have not been allowed to export their money without getting an official permit or coming within an official category. Have they been allowed to get a permit so that they might sell their Canadian funds on the unofficial market in the United States? If they have not, and the witness says "no", it surely is a discouraging thing to American investors as far as the Canadian investment field is concerned, if they now send their money over here. They would not mind about not getting it back during the war because they would realize the difficulty and would take the risk; but after the war is over, surely they must be given some consideration, if we are to encourage American investment in this field. Apropos of that, I refer to the tremendous project up the Saguenay River of the Aluminum Company which was made possible through speculative or venturesome money. There are many kinds of money, but the kind which creates jobs is the venturesome money, money which people can afford to risk and to lose.

Mr. STEWART: I do not think they risked very much there.

Mr. JACKMAN: You may have your turn, Mr. Stewart, in due course. What has happened in that case? The Aluminum Company, say with American capital, ventured up here and took nothing out of Canada, brought in the imports, harnessed the water which still flows and gave work to 15,000 Canadians and made the greatest single contribution that Canada has made to the war, because our supply of aluminum was 35 per cent of all the aluminum used by all the allied forces. It was a great contribution. They had the know-how. We have not got that always in Canada because great as we are and great as our sons are—even those sons who stay with us and do not go across the line—we have not got the great research opportunities that they have in the United States. Nor can we have it relatively because of the numbers, the wealth and resources which put the United States ahead of us; yet we shall be able to borrow great ideas from them which would help develop our country and make it much stronger than it otherwise would be. That is why I believe that American investments should be encouraged wherever possible. Now, they have tremendous markets for specialty papers, and one of their companies will come up to Ontario and build a mill and will work just on that type of pulp. We haven't got the market in Canada. So I do not like to see anything done in our legislative chambers which will discourage American investment in this country. I believe that if we have assets here which will be productive, we certainly will tax them and get certain return out of them. They will get benefit out of them also; but I think it adds to the benefit if Canada has that American capital coming over here, and it is much more venturesome than the capital of any other country coming into Canada at the present time.

Mr. STEWART: I should like to say that I do not see why we should discuss American monopoly capital coming into this country to exploit Canadian resources. If there is to be a discussion I will join in it, but I think we ought to get back to this bill.

Mr. JACKMAN: I said nothing about monopoly.

Mr. BLACKMORE: The reason why this is interesting to this group is that it is of first importance that we know what it is that is increasing our indebtedness to the United States and consequently making rigid the amount of money we have to pay to the United States every year as interest. I think the kind of money Mr. Jackman speaks of constitutes a definite addition to the Canadian debt to the United States and requires the export of goods to pay that debt.

*By Mr. Jackman:*

Q. May I ask a question of Mr. Rasminsky along that line? You gave in that table 3 on page 7 of the Foreign Exchange Control Board's report to the minister the total of U.S.A. investments in Canada of \$4,190,000,000, and that is referred to as our debtor position. Is there not a great distinction to be made between a debtor position which represents proprietorship capital and that which represents creditor capital where you have a change from year to year and an eventual maturity? As Mr. Blackmore points out, the investment in that particular Aluminum Company was for the most part equity money or proprietorship money; it does not call for any definite claim. The money is in Canada and stays in Canada, except as it happens to earn in good times some return, and they will apply for permission to pay an income to the American owners of the capital. Should one not distinguish when one talks about a country's debtor position between proprietorship claims and creditorship claims?—A. I think that is an important distinction, yes.

Q. And would you not say of the U.S.A. investment in Canada of \$4,190,000,000 that a large part of it—perhaps you could give us a breakdown of it—perhaps a good deal, over half, represents branch plants which are likely to be proprietorships, investment in the equities, in mines and in other enterprises of that nature? So in that sense it does not make our economy vulnerable and exposed to the extent that the aggregate figures would indicate.—A. I think there is an important distinction to be drawn from the point of view of the burden of fixed charges between investment which takes the form of the ownership of an obligation bearing interest at a fixed rate and the proprietorship capital. I am afraid I have not any figures which would break down this item of \$4 billion into those two groups.

Q. Our economy is much less exposed if it happens to be a proprietorship claim rather than a creditorship claim?—A. There are differences of various sorts. One difference is the one you mentioned—the burden of fixed charges in the case of creditor claims as contrasted with proprietorship claims; another difference is that proprietorship claims may involve non-resident control of Canadian enterprises where the creditor claims do not involve that.

Q. That is outside of the scope of this committee—of the bill?—A. Yes, I think it is, but I am pointing out that there are various differences. Another difference is that the proprietorship claims may have available larger masses of funds which are free to move across the exchanges than is the case with the creditor claims. Take the illustration you have mentioned—take the branch plant situation—branch plant remittances across the exchanges are not necessarily, in the absence of an exchange control system, limited to interest payments or even to their own current earnings: the only limiting factor on such remittances in the absence of an exchange control system is the domestic financial resources which are available to the Canadian end of the business. So that even though that is a proprietorship claim and hence one would say that represented a smaller burden of fixed charges, the impact of that type of investment on the exchanges at any given time might conceivably be much more serious than would be the case with an ordinary creditor.

Q. I do not want to get up a side alley. Even as rigidly drawn as the Act it, supposing the branch plant of an American concern was making certain parts in Canada and was not allowed to export its profit, could not get permission to do so, is there anything in this Act—and if there is I should like to know how it is going to work—which would prevent that plant from selling its product which goes over to the parent company in the United States at a price which would show the parent company all the profit and leave no profit in Canada? I wonder whether you can design any exchange control between Canada and the United States which cannot be gotten around in case it does not work to the satisfaction of those who put the branch plants over here? It

gets down to that fair value clause 26(2).—A. First, on the question of fact. There is a regulation of the board which provides that foreign exchange will be provided for the undistributed current earnings of non-residents in Canada which have been earned since June 30, 1939.

Q. That comes about automatically if they apply, does it?—A. That is right.

Q. Is there discretion on your part or is it mandatory?—A. No, that is a regulation of the board.

Q. But it is a regulation that you may change? It is not statutory as 26(2) is?—A. That is right. What you say is correct.

Hon. Mr. ABBOTT: That could be changed at any time.

The WITNESS: That could be changed at any time, yes. On the question whether we could effectively prevent the export of capital through the false valuation of imports or exports that, of course, is the whole point of sections 36, 25 and 26 which give the board the power. Admittedly it is a very difficult problem. In exercising this power we would have to have regard to outside prices. If market prices were available one would naturally use market prices as the term of comparison. If market prices were not available one would have to have regard to the prices at which the Canadian company sold to unrelated customers in the United States, that is, to others than its parent company, or purchased from unrelated customers; or we might have to have regard to the prices which the American parent paid to unrelated suppliers in the United States as compared with the prices that it paid to its Canadian child. That is the reason that the powers have been inserted in this legislation, as I understand it, and without such powers, the exercise of which, as has been pointed out, is subject to review by the courts, it would not be possible to ensure that the export of capital did not take place in the guise of goods.

*By Mr. Jackman:*

Q. Do you think there is any real net advantage to Canada in encouraging American investment of capital?—A. I did not hear that and I am going to ask you to repeat it, but before I do I should like to add to my previous answer that this problem of the valuation of imports and exports is one in which not only the Foreign Exchange Control Board but also the Department of National Revenue has an interest. If profits are taken up in the United States rather than in Canada then not only is capital exported from Canada but the fisc is defrauded because corporation taxes and excess profit taxes are not paid on those items. The profits do not appear in the books of account of the Canadian company. The Department of Income Tax has had power in the Income War Tax Act—

Q. I am assuming there is no fraud. One can think of examples. I realize that the income tax people have clauses in there, too, but I am not thinking of a fraudulent transaction. I am thinking of those transactions where the parent company might like to see the child build up its surplus, but with perfect fairness they might say, "Well now, we will get this product over at the net cost in Canada without leaving any profit there." There are many such cases where they are making a specialized part or a specialized preparation for the American parent.

Mr. IRVINE: If Mr. Rasminsky is going to answer that question about capital from the United States I hope he will discuss finance capital and capital goods. I think we ought to have that very clearly designated. It is conceivable we may require badly the importation of capital goods which we may not have in Canada, but why we should go to the United States for finances I am hanged if I can see.

The ACTING CHAIRMAN: Shall I consider clause 5 of section 2 completed?

*By Mr. Jackman:*

Q. What I was asking Mr. Rasminsky was does the board—and I suppose I must use the term “board” and not “government”—consider it advantageous to Canada to encourage the investment of American funds in this country at the present time?—A. That is a question on which the board has no opinion.

Q. As far as the regulation of exchange is concerned—if this is a wrong question you can correct me—would you be prepared to advise the government that large American capital investment in this country at the present time was unhelpful to the work which you are endeavouring to carry out? Are we going to hurt our exchange position?—A. I would say that the existence of large American holdings of marketable Canadian securities and sizable cash balances in Canada present Canada with special exchange problems and, as I understand it, it is one of the purposes of this measure to enable Canada to cope with that in an orderly way and by methods that are regarded as advantageous to Canada.

*By Mr. Macdonnell:*

Q. Is it fair in that connection to point out to you that if I remember rightly the amount of American money—probably this is not the full figure—in the last four or five years was less than \$500,000,000? Is that a correct figure?—A. No, that is the net amount. Perhaps I should say exactly what that position is.

Q. May I interject one statement? I should like to think that this is not just an educative discussion we are having. My feeling is that it is very relevant for this reason, that to me the vitally important part of this bill is that we have to reach conclusions, as I understand it, not merely on this question of seeing that goods go in and out at fair values. That seems to me to be relatively simple and relatively unimportant so far as I can see, but as I understand it we go far beyond that, and really in its effect this bill is going to have very important results on the export and import of capital. Am I right?—A. It may have important results.

Q. That to me is terribly important. I want to make this point. I think everyone will agree, whether or not they happen to share my views, that enterprise is what we need in this country in the next few years. I think probably it is fair to say that the majority of the people in the House at the present time have that view. Let us assume that is true.

If that is true then it seems to me what we are discussing is terribly important because, as far as I am concerned, before I vote on this bill I have got to have views, which I confess I am too ignorant to have now, as to what the principles are which should underlie the import and export of capital. For instance, to me what we need is enterprise. Here I may not agree with you, Mr. Blackmore, but to me it is very important that we should have as much freedom as is possible—and I recognize it is only relative—in bringing in outside capital. I find myself in disagreement with some very unexpected people as to that view but, at any rate, that is my view. I think it is the view of some others. To the extent that view has weight I think that view cannot be expressed until we have some idea of what is the magnitude of capital which we can safely import, where we reach the danger point, and what are our safeguards, for instance, borrowing, and so on? I am not going to make a speech but to me, at any rate, it is tremendously important that we have the maximum freedom. It may be a very small minimum but we should have the maximum of freedom because if we have to make everyone who is coming in from the United States feel that he is going to be an economic prisoner in this country then it seems to me that we will not only lose money but what is equally or more important we will lose technical skill, and so on. I am not

ashamed to say that we need American technical skill and American energy and American enterprise. It is taking us a long way. I am not ashamed of it. It has brought us a lot of good citizens, some of the best we ever had. Some of our most desirable immigrants have come that way. And, personally, as I look to the next few years, and now I am remembering what the honourable member himself has said, while we are working under this system we must give it a chance. We need to give every inducement for outside talent to come in and help us along.

I apologize for having made this long statement, but to me it is relevant. Perhaps we may have come to the point now where Mr. Rasminsky can give us a little guidance as to the amount involved, because I do not think we should be asked to rely entirely on the Cabinet to determine what our exports and imports of capital are to be without some indication of the principles by which they are going to be guided. That to me means simply parliament abdicating its functions; it seems to me in fact that is the position this bill leaves us in; that if this bill is passed as it is now we have to leave it entirely to a few men, I am thinking of technicians not politicians, we have to leave it to a few men to determine and control the amounts of capital that are to come in.

Hon. Mr. ABBOTT: There is a political factor there, as Mr. Macdonnell has pointed out; but unless we are going to allow the free movement of capital back and forth—

Mr. MACDONNELL: Relatively.

Hon. Mr. ABBOTT:—the free movement of capital back and forth between Canada and the United States, discretion must be given someone to determine how much shall be allowed to flow one way or the other; and, to me, that discretion should be given to some group—

Mr. MACDONNELL: Would you not agree, Mr. Minister, there should be some general guiding principles laid down so the citizens and the business community would know on what basis the thing was going to be done?

Hon. Mr. ABBOTT: I think the guiding principle must be this, that our resources of United States dollars must be such as to enable us to meet our reasonable commitments in the United States. That is the whole purpose of Foreign Exchange Control.

Mr. MACDONNELL: When you say, our resources of United States dollars, do you mean for example—you are excluding entirely the possibility or the desirability of temporary borrowing when you say, our resources?

Hon. Mr. ABBOTT: I do not say that it might not be undesirable for us to borrow in the United States. I do not know whether it would or not. But it does seem to me that if we accept the promise that control is necessary for a time, decision as to what should be done and how that control will be exercised on the basis of that discretion must be given to someone, and I can see no other body capable of exercising it, than the government, on the advice of its technical advisers; in this case the Foreign Exchange Control Board and the Bank of Canada. I can see no other. I would not think it would be possible for a deliberative body such as parliament to determine to what extent we will allow the flow of capital back and forth between the two countries.

Mr. IRVINE: And may I ask Mr. Macdonnell if he would be kind enough to make his point clear; whether he is objecting to the control, who has the control, or is he arguing that we should not have any?

Mr. MACDONNELL: No, no; I agree with every word the minister has said; in fact, I tried to say practically the same thing before.

Mr. IRVINE: I thought you had this morning.

Mr. MACDONNELL: I thought I said it before. I agree with everything the minister says. All I say is that I think it is desirable that the ordinary citizen, or even the ordinary member of parliament, should have some idea of certain general guiding principles. I think the minister will agree with that.

Hon. Mr. ABBOTT: I agree with that. I apologize to the committee for not having been able to be present here this morning.

Mr. QUELCH: We have just listened quite a while to a strong plea to encourage American capital into this country. The main argument seems to be that we lack venture capital in this country. I do not see why it should be suggested that the people of Canada have lost their pioneer spirit. I think the real reason is that in the last few years there has been strong encouragement for people with capital in Canada to invest their money in gilt edge government securities. In the future there will not be such strong inducements for investment of that kind, and surely then a good deal of Canadian capital will be invested in ventures rather than in gilt edge government bonds.

Mr. STEWART: I wonder if the witness could answer the question which has been asked from several sides as to the necessity for importing American capital to build up the country. In other words, can we not finance our normal capital requirements in Canada, through the savings of Canadian people and Canadian institutions?

Hon. Mr. ABBOTT: Are you asking that of Mr. Rasminsky in his capacity as an economist or in his capacity as an official of the Foreign Exchange Control Board?

Mr. STEWART: As an economist.

The WITNESS: I am afraid it does not matter in what capacity I am asked the question, I do not know what the answer is. I think there have been times in the past when Canada has needed more capital, when the economic development of Canada has gone hand in hand with the import of capital, generally speaking in the import of capital goods and in the import of techniques.—

Mr. IRVINE: Sure.

The WITNESS:—from abroad. There have been times when there has been a money flow of capital without the import of capital goods and the import of techniques. I would say that over the last couple of years we have seen such a period, although certain developments, as I mentioned in my evidence a couple of nights ago, have taken place as the result of capital imported from the United States which I believe would not otherwise have taken place and which have been for the economic benefit of Canada. But these developments do not account for the bulk of capital which has flown into Canada in the last couple of years. However, (the import of capital from abroad is not something which you can turn on and off like a tap. If you were to act in a way which was arbitrary and unreasonable as regards foreign investors during a certain period when capital investment was perhaps a bit in excess of what you actually needed at that moment, then you would be well advised to do so with the knowledge that you were probably cutting yourself for a long time to come from access to the foreign capital market. You cannot be arbitrary in a matter of this sort, and because a certain course of action does not suit you during a one or two year period close the door and say no we are not going to have any more of that. My understanding of the situation is that it is not the policy of the government to prohibit capital investment in Canada. The question has been raised here this afternoon by two opposite angles. Your question is directed towards why we allow any foreign investment in Canada; and the question raised by Mr. Jackman and Mr. Macdonnell is whether the existence of an exchange control system is not an undesirable deterrent to foreign investment in capital. Now, turning to the other problem, whether the existence of foreign control is an

undesirable deterrent to foreign investment in Canada. I think the answer to that lies in the results. The table on page 5 of the report of the Foreign Exchange Control Board shows that from September 16, 1939, which is the date of the institution of foreign exchange control, until the end of 1945, United States holdings of Canadian securities increased by \$484,000,000. That is the net figure. That figure is net after allowing for the retirement of Canadian United States-pay securities which were held in the United States during the same period. I have the figures of retirements of Canadian securities up to March 31, 1946; that is, from January 1, 1940 until March 31, 1946. You will note there is some difference in the dates, but that does not significantly affect the point that I am making. The net retirements of United States pay Canadian debtor securities during the same period were \$461,000,000. Those figures show that the purchases of outstanding Canadian securities by Americans during this period were something in the neighbourhood of \$950,000,000. We sold about \$950,000,000 worth of outstanding Canadian securities to Americans during this period, and of the money that we got in we used about \$450,000,000 to pay off United States pay Canadian debtor securities, with the result that American holdings of Canadian securities increased net during this period by about \$500,000,000.

To come to the questions asked by Mr. Macdonnell and Mr. Jackman, "Does exchange control represent a prison that American capital will not venture into?" I have heard it said that there is nothing more timid than a million dollars. But here 945,000,000 American dollars have, notwithstanding an exchange control system, ventured into this prison, so-called. I do not think that the facts can substantiate the thesis that the exchange control system has acted as a significant deterrent to American capital seeking investment in Canada.

*By Hon. Mr. Abbott:*

Q. May I ask a question there, Mr. Rasminsky on that same point. Would it be fair to add to that figure you have just mentioned the \$230,000,000 representing undistributed profits of branches and subsidiaries of United States companies which have been accumulated in Canada during the period and which, I take it, could have been withdrawn had the owners desired to do it?—A. I think it would be perfectly fair to add that.

Q. It seems to me that is additional capital investment or it is an investment which is left in Canada during the period.—A. That is perfectly true, Mr. Abbott. The owners of that \$230,000,000 which is shown on page 5 could at any time during this period have come to the Foreign Exchange Control Board through a bank and said, "We want to convert this \$230,000,000 into United States funds." They chose not to do that.

Q. So in effect the increased investment by United States citizens in Canada during the period of exchange control has totalled over \$1 billion, if you add the \$230,000,000 to the \$900,000,000 odd figure you mentioned?—A. That is gross.

Q. Gross, yes.—A. Of course, their net investment is less.

Q. Yes.—A. In fact, notwithstanding this export of securities which has taken place, Canada's net debtor position vis-à-vis the United States has not changed in the course of the war. The measure of the change in Canada's debtor position vis-à-vis the United States is the figure at the lower right-hand corner of page 21 of the F.E.C.B. report, minus \$12,000,000; and allowing for possible errors and omissions in the figure, I think it is true to say that Canada's debtor position vis-à-vis the United States has not changed in the course of the war. It has not been impaired. On the other hand, it has not been improved.

Mr. JACKMAN: Might this argument not lead one to the conclusion that as long as Canada remained a good, honest country, as far as foreign investment is concerned, there is not very much need for control?

Mr. MAYHEW: You have had control for five years.

Mr. JACKMAN: Yes. But I am suggesting that under the control of the five years, as the minister pointed out, there were \$230,000,000 of earnings there which might have been exported had the owners seen fit. But of their own free will they preferred to leave them here, which shows that we have nothing to fear as long as we are a good, honest country.

The WITNESS: I do not think one can make both arguments, Mr. Jackman. I do not think one can argue on the one hand that foreign capital will not come to Canada and stay in Canada because there is a system of foreign exchange control and, on the other hand, that the conditions of stability, which are produced in part by a system of foreign exchange control are such that foreign capital will come and remain.

Mr. JACKMAN: Of course, we cannot say how much American capital may have come over here had there not been any control. However, we will leave that aside. We have just gone through a period which, to say the least, was unusual; and many American plants may have been started over here because of war orders and so on, the aluminum case being an example of that. That may have been one of the reasons which operated in an exceptional period which would not operate in an ordinary period. I might just say to the committee that one reason this is uppermost in my mind at the moment is that a man who has to do with customs regulations, and he is not a civil servant, came to my office just last week and asked for a copy of the bill because certain clients of his in the United States were proposing to put up a \$1,750,000 branch plant here; but, because of the threat of the perpetuation of exchange regulation, they became—like Mr. Rasminsky's million dollars—very timid and for the moment at least are holding back and cancelling any plans they had for building a branch in this country. It seems to me that regulations are, to say the least, a deterrent as compared with operation in a free market, notwithstanding the rather imposing record of American investment during the last five years.

The ACTING CHAIRMAN: Shall we go on from section 3?

Some Hon. MEMBERS: Carried.

Mr. JACKMAN: May I just ask Mr. Rasminsky this—

The ACTING CHAIRMAN: That is carried?

Mr. HAZEN: Oh, no. He is asking a question.

Mr. JACKMAN: The question is on what we are discussing.

The ACTING CHAIRMAN: It might be a new question, on a different section. I want to know where we stand.

*By Mr. Jackman:*

Q. While we have been discussing investments by foreigners in Canada, there is also a marked tendency, on the part of certain investors in Canada, to seek for diversification. They may know of opportunities in other countries, particularly in the United States, and may like to invest a certain proportion of their portfolios in that country. At the present time it is not possible to exchange their Canadian dollars for American dollars on capital account, and this bill, apparently, would prohibit them, unless there is a change in the regulations.

I wish to ask the witness whether or not it could be to the advantage of the whole of Canada to permit investment by Canadian nationals in a country like the United States. I would, perhaps, preface my question by saying that

the existence of large foreign investments on the part of the British, and United Kingdom nationals, has been the means of saving civilization on no less than two occasions.

We found in the war of 1914 and in the last war that the United States was our chief source of getting war materials; yet, because of the isolationist sentiment there, lend-lease supplies had to be paid for on the barrel head. We found that the existence of a fund of foreign investments owned by United Kingdom nationals was sufficient to keep Britain in supplies while she held the line and the United States and ourselves armed for the conflict. Now, might it not be said that a substantial foreign investment on the part of our own nationals might be a very real asset and something which, although I would not say encouraged, should not be discouraged by the regulations proposed under this bill 195?—A. I take it that you are referring to investment in marketable securities?

Q. Largely, but not necessarily. I give as an example the American Viscose Corporation which is owned by Courtauld's in the United States.—A. So far as direct investment abroad is concerned, the board does stand ready—subject to certain conditions which I would be glad to go into if the committee wishes me to do so—to provide United States funds for direct investment abroad. But I take it that your question is directed mainly towards the ownership of good marketable securities.

Q. A good half of the question, anyway.—A. Dealing with good marketable securities abroad, I quite agree with you that British ownership of good marketable securities in the past has been a very important factor—

Q. For the world?—A. For her and for the world in enabling her to deal with an emergency situation. And if you ask me, would I be happier than I am if Canada or individual Canadians owned United States marketable securities to the extent of \$1,000 million, the answer to that is: yes, I would be a good deal happier than I am. But you cannot eat your cake and have it too. The question that confronts us is: should Canada stand ready to provide United States funds to reduce its own liquid reserves by whatever amount is necessary to enable Canadians to satisfy the desire that they may have to add to their portfolios of United States securities? We are confronted with alternatives: you cannot have securities at no cost. You must pay the cash necessary to acquire the securities. As the thing stands now, having in mind particularly the pre-occupation that various members of the committee expressed earlier this afternoon regarding the state of the world and our own position vis a vis the United States dollar area. It does seem to me that it is necessary to retain control and to make sure that Canadian reserves are kept at the disposal of the Canadian economy and not used for the purpose of acquiring marketable securities.

Q. You really would not lose control of the reserves when a Canadian national invests in American securities because you still have a tag on them; they may have to report them to you; you still have that. But otherwise you want the money to lie idle in your fund rather than to allow an individual to take advantage of his own position and his own knowledge and take advantage of opportunities in another country. What advantage would it be to you, with respect to the fluctuation of the market, whether an individual owns those securities in his own right subject always to being a citizen of Canada and therefore subject to our general laws, when we wish to impose them upon him, or whether you have the equivalent United States funds in your exchange fund?—A. On the point you make that these securities are subject to our disposal, I would remind you that under this legislation there is no power vested in the board or in the government to take over ownership of foreign securities which are held by Canadians.

Q. But it was done in 1939 with the vesting orders of Great Britain, and we should have done so as well had we not been able to negotiate the Hyde Park Agreement. In other words, every United States security in Canada was listed by force of law with the government, and the board therefore had control over every dollar of United States investment owned by Canadian nationals. At any time we might put such a regulation into effect, or we can enact a regulation to do it.—A. Not under this Act.

Hon. Mr. ABBOTT: Not under this Act because it is less rigid and less restrictive than it was during the war.

*By Mr. Macdonnell:*

Q. Suppose that power were taken, would it solve the problem?—A. No, I do not think so for this reason: in the first place, the amount of liquid reserves that we have, bearing in mind the possible drain on those reserves through current account transactions, and bearing in mind the magnitude of our exposure if you were to place no restrictions on the purchase of securities in the United States, the amount of liquid reserves we have is not so high as all that.

Q. I do not want to go so far as to say that all restrictions should be lifted, but I wanted to see, if you had that power, would it, to that extent, solve your problem?—A. Considering the situation as it is likely to arise, practically, in what circumstances would Canada want to vest those foreign securities? There would be situations in which an adverse balance of payments with the United States was not being covered through favourable balances with other countries. Those situations are likely to be ones which are characterized by severe depression in the United States. Those are periods when we would tend to have an adverse balance with that country because prices fall in the United States and the proceeds of our exports go down.

*By Mr. Jackman:*

Q. And our imports go down too.—A. Not proportionately; not to the extent that would correct the balance. I think, Mr. Jackman, that it is in periods when there is a depression in the United States that we tend to have an adverse balance of payment with that country. Can we, at least, assume that, for the purpose of this discussion. Now, when there is a depression in the United States, we tend to have an adverse balance. It is then that we have to consider taking over securities. The circumstances of a depression are situations when the prices of securities are likely to be low and Canada and the owners would get less for the securities than they had paid for those securities or than what the securities might ultimately turn out to be worth.

Q. Under the table on page 6, our adverse balance from 1926 to 1928, which were years of high prosperity, was minus \$275,000,000, an adverse debit balance on American account with the United States; whereas, between 1935 and 1937 or rather 1932 to 1934, which were years of extreme depression, we were only minus \$120,000,000, which was less than one-half.—A. Yes, the earlier periods, Mr. Jackman, were periods of capital inflow into Canada, which naturally produce an adverse balance to the extent that capital inflow takes the form of import of capital equipment.

Q. But our net balance was worse in the years of prosperity than in the years of depression, very much so; if you take 1926 to 1928 as two years, it was minus \$275,000,000; whereas in 1932 to 1934, which were undoubtedly bad years, we were only minus \$120,000,000.—A. The statement that I made before should have been qualified because I was really abstracting from capital movement. It is capital movement, I think, which creates that difference you have pointed out. If you compare the years 1926 to 1928 to 1929 to 1931, you will find they were years of deep depression; and you have a very large unfavourable balance.

Q. I remember Sir George Paish telling me that in 1932 he could look back on 1931 as a year of great prosperity, and I could hardly believe it. The 1929-31 period was a relatively good period considering what we went through afterwards.

*By Mr. Fleming:*

Q. I formed the impression from an answer given by Mr. Rasminsky that the reason for the bill is confined to our exchange relations with the United States; am I correct in that?—A. I would put it this way, that in the whole world situation as it appears at the present time the character of our exchange relations with the United States causes a certain amount of preoccupation which is, as I understand, the reason for this bill.

Q. And apart from the special exchange situation affecting Canada and the United States on account of our close relations, there would not be any occasion now for foreign exchange control in respect of our exchange relations with other countries of the world?—A. Well, I find it awfully difficult to answer that. It is asking that I remove from the picture one of the most dominant elements in our international financial relations and then try to sketch what the picture would be with that element removed. If there were no such country as the United States I do not know what our relations with the United Kingdom or France or Europe would be.

Q. If you cannot give me an answer to that question and detach relations with the United States from other countries of the world as far as exchange is concerned, I will not press the question, but I gather it is fair to say that our exchange relations with other countries than the United States do not present any problem at the present time that would give occasion to continue foreign exchange control in peace time, and it is entirely because of our position, our exchange relations with the United States, that this measure is proposed now to be continued?

The ACTING CHAIRMAN: Gentlemen, shall we pass on to the responsibility of the minister?

MR. FLEMING: Is there any comment from Mr. Rasminsky on my question?

The WITNESS: No, my comment on that would have to be the same as on your previous question.

MR. HAZEN: I would like to ask the assistant to the minister or somebody a question. The explanatory note opposite page 1 of the bill says:—

The purpose of this bill is to make statutory provision for foreign exchange control which is now in force under orders in council passed under the authority of the War Measures Act.

Now, the War Measures Act gave extraordinary powers to the government during war or threatened war, insurrection or rebellion or whatever the words are. Under the extraordinary powers they possessed under the Act they made these orders in council and it is now proposed to, as it were, put these orders in council into this bill. If we look at this bill it says in section 25, that no person shall export any property from Canada.

In section 27 it says that no resident shall either in Canada or elsewhere sell, assign, transfer or deliver any securities, and so on. Now, the question that arises in my mind and I am asking for information, is this: is it within the powers of the dominion parliament to pass an Act of this kind? We are dealing under these sections with property and surely property and civil rights come under section 92 of the B.N.A. Act. The question I am going to ask is this: has the Department of Justice been consulted, and has their opinion been obtained on that point, or could we have somebody to deal with this bill? I think we might have somebody from the Department of Justice come before this com-

mittee and explain the legal aspects of it to us. The Canada Temperance Act was recently before the Privy Council and there may be some parts in that judgment that might throw some light or have some bearing on this matter.

Hon. Mr. ABBOTT: This bill was submitted to the Department of Justice as all bills are and approval was obtained. It was also approved by the Minister of Justice personally, who went over it himself rather carefully. I do not know whether the attention of the Department of Justice was particularly drawn to the point that Mr. Hazen has made, that this may be an infringement on provincial rights under section 92 of the B.N.A. Act, but I shall be very glad to find out from Justice whether they considered that point, and, of course, if the committee desires the deputy minister to come here I am sure he will be glad to come and give us his views. I have my own, but there is no purpose in my giving them.

Mr. HAZEN: I think it would be interesting if we heard those views from the Department of Justice.

Hon. Mr. ABBOTT: Mr. Tarr might be in a position to state whether that question was given special consideration.

Mr. TARR: I know the question of whether this legislation is within the jurisdiction of the dominion parliament was considered by the Department of Justice and it was their opinion that it is.

Mr. HAZEN: I think it would be interesting if we could have the reasons why the Department of Justice came to that decision and on what authorities they based their opinion.

Mr. LESAGE: Where is the ground for saying that it infringes provincial rights?

Mr. HAZEN: Property rights.

Mr. LESAGE: The import and export of property and goods?

Hon. Mr. ABBOTT: That is under the section on the export and import of goods.

Mr. HAZEN: I am asking only for information, and I think the committee would like to be enlightened on this matter.

Hon. Mr. ABBOTT: I suppose Mr. Tarr could ask the Department of Justice and I am sure they would give us a written opinion, and if you wanted to go further into it and elaborate on it, Mr. Varcoe could come before the committee.

The WITNESS: May I be allowed to make a correction to a reply I gave before to Mr. Jackman's question? It relates to the question whether or not Canada always has adverse balances of payments in periods when there is a depression in the United States. The thing I would like to add is this, and I must state this as a personal opinion, that in my opinion, Canada should have an adverse balance of payments in periods when there is a depression in the United States. When we have failed to do so in the past, and there have been occasions when we have failed to do so in the past, it has been because we too have had a depression in Canada, we have followed the United States in the depression; incomes in Canada have been curtailed and imports from the United States have fallen off, and therefore our accounts have at certain such periods tended to be brought into equilibrium or a disparity has been prevented from developing. Now, if in future Canada is successful in carrying out policies of high employment, as the result partly of international economic collaboration, and partly as the result of domestic economic measures, and the United States gets into difficulties and a depression does develop there, then we will be faced with a situation when the proceeds of our exports to the United States will fall. On the other hand, to the extent that we have been successful in maintaining incomes in this country our imports from the United

States will be maintained, and consequently a disparity in our balances of payment will develop, and in order to enable us to meet that disparity we need liquid resources. Those resources are provided in part through our membership in the Bretton Woods institutions, in the fund; they are provided in part by cash balances in United States dollars which Canada owns.

Mr. JACKMAN: That is to say, Canada has greater fluctuations than the United States.

The WITNESS: No, excuse me. I am assuming that Canada is more successful in maintaining stability than the United States.

Mr. JACKMAN: I see, you are assuming that we are more successful in ironing out seasonal fluctuations than they are in the United States, which is highly problematical, as so much of our activity depends on raw materials; and, of course, the supply of raw materials is a thing which fluctuates, but we are primarily a raw material country.

The WITNESS: Quite likely.

*By Mr. Jackman:*

Q. May I ask you this, however; with respect to the table No. 4 (on page 20) the total of Canada's holdings of gold and U.S. dollars, which is up to \$1,508,000,000. How much have Canadians in securities in the United States? Have you those figures? We would like to have that information if it is available.—A. If you will look at the end of the first paragraph below the table there you will note that after mentioning that the United States investment in Canada in 1939 was \$4,200 million, there is a sentence which reads:—

Taking into account assets in the United States held by Canadians, Canada's balance of indebtedness to the United States was in the neighbourhood of \$3 billion.

That leaves approximately \$1,200,000,000; and, of course, that would not all be entirely in the form of marketable securities, it would also include Canadian investment in branch plants in the United States, and such investments as we have in real property.

Q. And may I ask you what difference it will make to the management of Canada's economy and to the Board if in place of the \$1,500,000,000 held by the Board that amount were \$1 billion and \$500,000,000 more in the form of liquid securities held by Canadian investors? Would it make very much difference to the management or administration of Canada's economy?—A. You mean, as of to-day, Mr. Jackman?

Q. Yes. I am taking the figures as at the end of 1945.—A. I think the question is, would it make any difference as of July 15, 1946, if at this moment individual Canadians were holding \$500,000,000 of American securities and F.E.C.B. were holding \$500,000,000 less of American cash; then, the answer to that question is no, it would not make a great deal of difference. But that raises the whole question as to the process by which Canadians acquire investments in the United States, the items in Canada that they disinvest in and that they fail to invest in, the possible fluctuations in values of the assets that they acquire in the United States, and the extent of the exchange applications for this purpose. It might run our reserves very inconveniently low, and there might be difficulty in realizing on these securities when the funds were needed. And so, if you look at the thing from the dynamic point of view, it does seem to me at any rate that at this moment there are good reasons for the government not instructing the Board to provide United States funds for the purchase of marketable securities. But if you look at it from the static point of view, as at this moment, and ask, would it make any difference to us if Canadians were holding \$500,000,000 and we were holding \$500,000,000 less cash; I think the answer to that has to be, no, it does not.

The ACTING CHAIRMAN: Gentlemen, it is five minutes to six. What is your pleasure about sitting tonight? Is it understood that we pass on from section 4 to section 5?

Some HON. MEMBERS: Agreed.

Mr. MACDONNELL: When is Mr. Cleaver coming back? That is what I want to know.

Hon. Mr. ABBOTT: I do not think we should sit tonight, Mr. Chairman.

Mr. JACKMAN: Unless you answer my correspondence, Mr. Chairman.

Mr. MACDONNELL: Hitler has nothing on you.

The ACTING CHAIRMAN: I am just trying to carry out what I am supposed to do.

Mr. MACDONNELL: Is he afraid to do this? Did he get you to do it?

The ACTING CHAIRMAN: I doubt very much if there is anything of daring in this, to suggest three meetings. Is section 4, responsibilities of the minister, carried?

Some HON. MEMBERS: Carried.

Mr. MACDONNELL: What are we doing?

The ACTING CHAIRMAN: Let us understand. I do not want to do anything that we should not do.

Hon. Mr. ABBOTT: What section are we on?

The ACTING CHAIRMAN: We are on page 4, section 4, responsibilities of the minister.

Some HON. MEMBERS: Carried.

Mr. JACKMAN: We are not through interpretation, are we?

The ACTING CHAIRMAN: We are finished with that.

Mr. JACKMAN: No. I wanted to ask some questions about "resident".

Mr. HAZEN: Did we ever carry section 3?

The ACTING CHAIRMAN: I do not want to do anything that is not right, but I heard section 3 carried when I asked.

Mr. JACKMAN: I did not hear that.

The ACTING CHAIRMAN: And I used these words, the next section is section 4 dealing with responsibilities of the minister.

Mr. RINFRET: Carried.

Mr. HAZEN: I thought the understanding was that if any section was carried it could always be reopened again.

The ACTING CHAIRMAN: Oh, yes, if you wish to go back to it at the end of the Act. What is your pleasure in regard to meeting this evening? Section 4, I understand, is carried. We will stop right there at section 4. We do not want to do anything that is not right.

Mr. RINFRET: We still have five more minutes.

Hon. Mr. ABBOTT: Oh, no.

Mr. RINFRET: Let us carry 5 too. We have had full discussion.

Mr. MACDONNELL: Leave it for tomorrow.

The ACTING CHAIRMAN: Is it your pleasure to meet this evening?

Mr. JACKMAN: I have not got all the questions asked that I wanted to ask.

Mr. IRVINE: I do not think we should meet this evening.

The ACTING CHAIRMAN: Let us agree as to whether or not we meet this evening.

Some HON. MEMBERS: No.

The ACTING CHAIRMAN: Then tomorrow afternoon at 4 o'clock.

Mr. JACKMAN: On the assumption that there is no vote in the House at that particular hour.

The ACTING CHAIRMAN: The meeting stands adjourned until tomorrow at 4 o'clock then.

SESSION 1946

HOUSE OF COMMONS

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STANDING COMMITTEE

ON

# BANKING AND COMMERCE

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BILL 195, FOREIGN EXCHANGE CONTROL

---

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

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TUESDAY, JULY 16, 1946

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## WITNESSES

Mr. L. Rasminsky, C.B.E., Chairman (Alternate), Foreign Exchange Control Board;

Mr. H. H. Tarr, Secretary, Foreign Exchange Control Board.

OTTAWA

EDMOND CLOUTIER

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1946



## MINUTES OF PROCEEDINGS

TUESDAY, July 16, 1946.

The Standing Committee on Banking and Commerce met at 4 p.m., the Chairman, Mr. Cleaver, presiding.

*Members present:* Messrs. Black (*Cumberland*), Blackmore, Cleaver, Cote (*St. John's-Iberville-Napierville*), Dionne (*Beauce*), Fleming, Fulton, Gour, Harkness, Hazen, Irvine, Isnor, Jackman, Macdonnell (*Muskoka-Ontario*), Marier, Mayhew, Michaud, Quelch, Rinfret, Sinclair (*Ontario*), Stewart (*Winnipeg North*).

*In attendance:* Hon. D. C. Abbott, representing the Minister of Finance; Mr. L. Rasminsky, Chairman (Alternate), and Mr. R. H. Tarr, Secretary, Foreign Exchange Control Board.

The Committee continued its consideration of Bill 195, "An Act respecting the Control of the Acquisition and Disposition of Foreign Currency and the Control of Transactions involving Foreign Currency or Non-residents", and further questions on the said bill were addressed to Mr. Rasminsky and Mr. Tarr.

At 6 p.m. the Committee adjourned until 8 p.m. this day.

### EVENING SITTING

The Committee resumed at 8 p.m., Mr. Cleaver presiding.

*Members present:* Messrs. Argue, Black (*Cumberland*), Blackmore, Cleaver, Fleming, Gour, Hackett, Hazen, Jackman, Macdonnell (*Muskoka-Ontario*), Mayhew, Michaud, Quelch, Rinfret, Sinclair (*Ontario*), Stewart (*Winnipeg North*), Thatcher.

Examination of Mr. Rasminsky and Mr. Tarr continued on clauses 5 to 19 inclusive of Bill 195.

The following clauses of the Bill were adopted: 5, 6, 7(1), 8, 9, 10, 12, 13, 14, 15, 16, 17 and 18.

Sub-clause (2) of clause 7 and clause 11 were allowed to stand for further consideration.

At 10 p.m. witnesses retired and the Committee adjourned until Wednesday, July 17, at 4 p.m.

R. ARSENAULT,

*Clerk of the Committee.*



## MINUTES OF EVIDENCE

HOUSE OF COMMONS,  
July 16, 1946.

The Standing Committee on Banking and Commerce met this day at 4 o'clock p.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: We are on section 5 of the bill, exchange fund account continued.

**Louis Rasminsky, Chairman (Alternate), Foreign Exchange Control Board, recalled.**

The WITNESS: Do you think it would be helpful to the committee if when we come to these main sections such as exchange fund account I were to attempt to summarize briefly the main provisions of the sections?

The CHAIRMAN: I do.

The WITNESS: Sections 5 to 9 deal with the exchange fund account and its operation. The exchange fund account was originally established in the name of the Minister of Finance by virtue of the Exchange Fund Act of 1935 with the profit on the revaluation of the gold at that time held in unencumbered ownership by the Bank of Canada. Revaluation took place at current market prices. The gold was before revaluation carried on the books of the Bank of Canada at the price of \$20.67 per fine ounce. As stated in the Exchange Fund Act the purpose of establishing this account was to aid in the control and protection of the external value of the Canadian monetary unit, but it was not found necessary to use the account until the introduction of foreign exchange control in Canada on September 15, 1939. At that time the exchange fund was placed at the disposal of the Foreign Exchange Control Board as its initial resources.

Section 5 of the bill continues this special account in the name of the Minister of Finance and authorizes the investment of balances in the account in dominion government or guaranteed securities, gold, United States dollar balances, and United States government securities and, within such limits as the Governor in Council may authorize from time to time, in balances in other foreign currencies and treasury bills of the United Kingdom.

Section 6 of the bill provides for future revaluations of any gold held as reserve by the Bank of Canada if the current market price should change and for the crediting or debiting of the exchange fund account with the profit or loss arising out of such revaluation. At the present time the Bank of Canada owns no gold in unrestricted ownership.

*By Mr. Jackman:*

Q. Owns which?—A. No gold as a reserve, the Bank of Canada having been required under the exchange fund order of April 30, 1940, to sell the gold which was at that time in its possession to the exchange fund. At that time the gold reserve requirements of the Bank of Canada were suspended, and section 71 of this bill continues the suspension of the gold reserve requirements of the Bank of Canada until such time as the Governor in Council otherwise directs. No

acquisition of gold by or retransfer of gold through the Bank of Canada is contemplated at the present time, but it is felt to be desirable to include the provisions of section 6 in the event that gold should later be held as reserve by the Bank of Canada.

Section 7 authorizes the Minister of Finance to make advances to the exchange fund account out of unappropriated moneys in the consolidated revenue fund upon such terms and conditions as the Governor in Council may prescribe. Up to the present the resources required by the fund to finance acquisitions of exchange in addition to its original capital and its reserve fund have been provided by way of government advances authorized by orders in council under the various war appropriation acts. Subsection 2 of section 7 provides for an annual report to parliament of advances made under this section.

Section 8 provides that the earnings of the exchange fund account will, after the Act comes into force, be paid to the consolidated revenue fund annually. Up to the present such earnings have been left in the exchange fund account and have been transferred to a reserve fund.

Mr. JACKMAN: Perhaps the minister would answer this. Under the Crown operated companies of Mr. Howe he keeps the earnings in those companies against our desires, or my desire, anyway, instead of turning them over annually to the consolidated revenue fund. If the principle is sound in this case, as I think it is, why is it not sound in the other case?

Hon. Mr. ABBOTT: I think you had better ask Mr. Howe why he keeps them in his companies.

Mr. JACKMAN: Why should you not keep the earnings in a revolving fund here?

Hon. Mr. ABBOTT: I suppose the answer is we think the character of the operations of this fund are rather different from Mr. Howe's Crown operated companies, I have no doubt, and in any case it has been decided that the operations under this particular account, as is the case with the Bank of Canada, will be turned into the consolidated revenue fund.

Mr. JACKMAN: Do you think it wise that the earnings should be turned over to the consolidated revenue fund?

Hon. Mr. ABBOTT: It has been so decided in this case.

The CHAIRMAN: I take in that we have your blessing.

Hon. Mr. ABBOTT: I take it you should be pleased.

Mr. JACKMAN: I would rather have you keep it in this case than in the other one.

The CHAIRMAN: Are there any questions arising out of Mr. Rasminsky's statement?

*By Mr. Jackman:*

Q. Do you want to finish with section 9?—A. I am going to ask Mr. Tarr if he will explain section 9.

Mr. TARR: The Consolidated Revenue and Audit Act is the Act under which most government receipts and disbursements are dealt with. Under that Act all government receipts have to be paid into the consolidated revenue fund, and then there is the ordinary procedure for disbursement. I am not certain of the details as to what they are, but there are certain forms for approval of expenditures and payments out of the consolidated revenue fund. The provisions of that Act are not applicable to the operations of the exchange fund account in that all receipts go into the exchange fund and certain payments are made out as provided by this Act. The treatment of receipts and disbursements is different from what it normally is.

Mr. JACKMAN: In other words, the auditor general merely certifies that what you have done is within the scope of your jurisdiction? He does not make a detailed audit if such an audit would be applicable to an account of this kind?

Mr. TARR: He makes a detailed audit but he does not report in detail. The purpose of subsection 2 of section 9 is bound up with the necessity for secrecy of operations in the exchange fund account, at least at the time the operations are taking place. It is the same provision as was in the Exchange Fund Act which provides that the auditor general shall conduct an audit, but his report to parliament is limited to a certificate that he has audited the accounts and that the transactions through the account have been proper ones under the legislation.

*By Mr. Jackman:*

Q. I do not seem to see it in that section 9 which really goes into a detailed audit. I do not think that a detailed audit is applicable in a matter of this nature.—A. I think the situation is this, Mr. Jackman, that the exchange transactions of the exchange funds merely consist of the conversion of one type of asset into another type of asset, such as a conversion of Canadian dollars into foreign exchange or an investment of foreign exchange in one type of asset as distinguished from another type of asset which, as you say, must be certified as being within the scope of the authority of the exchange fund.

Q. At any time is it necessary for the fund to report *ex post facto* on how it has handled the affairs of the fund?—A. Oh yes. There are various types of reports which are provided for in this bill. Section 39 provides that the board shall submit to the minister within six months after the 31st December in each year a report in such detail as the minister may from time to time direct, covering the operations of the board for the twelve months ending on the 31st day of December; and subsection 2 of section 39 provides that the minister shall lay that report before parliament.

Q. I want to know whether or not your past acts are ever revealed to the light of day. At the same time would it be possible for the public to know just what you did six months, or a year ago?—A. Subsection 2 of section 39 provides that the minister shall lay before parliament any such report within thirty days after it is submitted to him or, if parliament is not then sitting, within thirty days after the commencement of the next ensuing session hereof.

*By Mr. MacDonnell:*

Q. Subsection 1 says: the board shall, within six months after the 31st day of December in each year, submit to the minister a report in such detail as the minister may from time to time direct. A. That is right, Mr. Macdonnell. The reason for that form of words, and one of the reasons for section 9, subsection 1 is that it may be undesirable upon occasion to disclose the details of the board's foreign exchange position lest such a disclosure lead to speculative activities. That phrase to which you have alluded, Mr. Macdonnell, does give the minister a discretion to direct the board from time to time to lay its reports before him in varying degrees of detail.

*By Mr. Irvine:*

Q. When the occasion is past, however, would it not be wise that parliament then know why the reticence in respect to any particular matter?—A. In general I should think that what you have said is right Mr. Irving. There will,

of course, be an annual occasion when parliament will have an opportunity of examining the whole of the operations of the Foreign Exchange Control Board. That occasion is provided by section 13 of the bill:—

Except as provided by section 12 and 17 of this Act, the cost of administration of this Act shall be paid out of moneys provided by parliament.

So that year by year there necessarily will be a parliamentary appropriation to cover certain administrative costs of the Foreign Exchange Control Board which would provide for a review of the operations. This would at least provide the occasion for a reminder to the minister, if necessary, that the degree of detail of the board's exchange position which he has hitherto disclosed is unsatisfactory.

*By Mr. Harkness:*

Q. The point is that this audit which is being provided for, or any other audit report provided for in this Act, will not provide any audit which will show the state of the accounts or the transactions which have taken place in it; and there is no provision to enable a member of parliament to secure that information.—A. In addition to the annual report which it is the duty of the board to make to the minister, there is a provision in section 9, subsection 2, as follows:—

(2) An annual audit of the Exchange Fund Account and of the transactions in connection therewith shall be made by the Auditor General in such manner as he thinks proper with a view to ascertaining whether the transactions in connection with the account have been in accordance with the provisions of this Act and he shall certify to the House of Commons that in his opinion, having regard to such examination, the transactions in connection with the account have or have not been in accordance with the provisions of this Act and that the records of the account do or do not show truly and clearly the state of the account.

Q. That is the very section opposite to which I placed my note when I first read it over.—A. The audit certifies that the transactions have been in accordance with the provisions of the Act. The state of the account itself is disclosed under the provision of section 39, subject to the qualifications to which Mr. Macdonnell has drawn attention, namely, the degree of detail which may be varied by the minister.

*By Mr. Macdonnell:*

Q. I wonder if the minister would entertain an amendment in some such form as this, in section 39, showing in reasonable detail the operations of the fund. I appreciate that we cannot necessarily ask for every detail, but that report might be only of three lines in length.

Mr. JACKMAN: Would there be any objection, six months after the end of the year, giving the balance sheets to the end of the year? A report just tabled gives the position of the fund as at December 31, 1945. Would there be any objection to giving the balance sheet, and the operating account statement six months after the end of the year?

Hon. Mr. ABBOTT: I would be glad to consider such an amendment. The answer must depend upon the technical advice that we are given, as to whether it would prejudice the operation of the exchange fund account to give too detailed information at too early a date. I think the government would have to rely on the advice of its technical advisers. It is a pretty elastic term, of course.

*By Mr. Irvine:*

Q. Eventually we can get the information we want from the provisions.—  
A. I think, sir, that it would be possible to find some words which would give Mr. Macdonnell the assurance he seeks that there would not be an arbitrary curtailment of the information.

*By Mr. Macdonnell:*

Q. After all, we are probably not far apart. What we are really suggesting is that within a reasonable time after the event, similar reports could be produced in the future.

*By Mr. Fleming:*

Q. I understand you are not actually on section 39, but seeing that a reference has been made to it, what was the reason for entertaining six months as the period at the end of which the report for the year ending December 31st should be submitted to the minister? Is it because of the desire to withhold information that may not be thought proper to be made public until it is really stale? Or, is there any difficulty in actually preparing the report within a shorter period of time?—A. No, sir. The reason was more along the lines of the first reason that you suggested. The desire of the government in bringing forward the section in this form is, I believe as follows:

It is felt that in ordinary times, in normal circumstances, that a period of six months is probably a sufficiently long period to enable the government to publish complete details regarding the position of the exchange fund account without fear of stimulating undesirable speculative activities.

*By Mr. Jackman:*

Q. What form could undesirable speculative activities take?—A. Do you mind if I complete the question which has been put to me?

Q. Not at all.—A. If the period were as short as, let us say, one or even three months, then, if there were any pressure against the exchange fund which might take the form, for example, of a prepayment for imports on an unusually large scale, then, if there were such pressure against the exchange fund, it is felt that a lapse of a six months period would be long enough so that a wave of speculative activity of that sort would have spent itself. Obviously the longer the period one takes, the safer one is from the point of view of the control. A year would have been a safer period. On the other hand there is a natural interest on the part of parliament and on the part of the public in the position of the exchange fund account. That is why the period of six months was chosen as providing quite up-to-date figures or figures which are as up-to-date as those which have been published by the great majority of exchange stabilization funds.

The period of six months does provide figures which are reasonably up-to-date. Now, there may be a situation in which a movement has not spent itself at the end of a six months' period. In that case it may be undesirable to publish full details regarding the exchange fund account. That is why the phrase "in such detail as the minister may direct from time to time" has been inserted. But I think I would be safe in saying that in the normal course of events quite complete details would be asked for by the minister in these annual reports, and would be laid before parliament.

*By Mr. Macdonnell:*

Q. Mr. Fleming's question suggests to me that the six months' point of view is very undesirable because it might mean that in the ordinary course it would not be tabled until after parliament had adjourned. I would be very unwilling

to see that happen. Mr. Fleming's question suggests to me that we ought to make that substantially less than six months. You can preserve the situation. I can see that the minister should have discretion to protect a situation, but I would be unwilling to see this as it is now, because in the ordinary course, it would mean that it would come down after parliament had adjourned.

Hon. Mr. ABBOTT: Not according to the record of the last few parliaments.

Mr. ISNOR: The fiscal year closes March 31st and the Auditor-General's report is dated March 31st. Would it be that the government had that in mind, actually—until three months after the close of the fiscal year?

*By Mr. Irvine:*

Q. I do not suppose there is any relationship between this date and the fiscal year of parliament.—A. No, the exchange fund accounts are kept on a calendar year basis.

Mr. ISNOR: Except that the Auditor-General's report covers this, just as it does all other activities.

Hon. Mr. ABBOTT: No, I do not think so. I think he would audit the exchange fund accounts just as he audits the Crown companies, really, as an auditor.

The CHAIRMAN: Changing that date, Mr. Macdonnell, from December to October would meet your suggestion, would it not?

Mr. FLEMING: You mean to change the fiscal year?

*By Mr. Macdonnell:*

Q. Has it not got to be the 31st December?—A. It will require a major operation to change our fiscal year from the calendar year basis.

Hon. Mr. ABBOTT: Mr. Macdonnell's whole concern is that not later than six months after the close of the fiscal year, the accounts should be available to parliament if it is in session, and to the general public if it is not.

Mr. MACDONNELL: I think it is desirable to have it come down before parliament has adjourned.

Hon. Mr. ABBOTT: I think myself that on the grounds of policy it would be impracticable and unwise to submit a report disclosing the exchange position sooner than a date of six months previous. For instance, if we showed an exceptionally low position with respect to holdings of American dollars a month after the report is issued, it might encourage speculative activities to which Mr. Rasminsky has referred, such as forward commitments and the like. So I think we will have to recommend that it may be desirable that the figures which will show the exchange position of the fund cannot be made public sooner than six months late, if I can put it that way.

Mr. JACKMAN: It is permissible within the six months and within such earlier period as you may desire. May I say in regard to subsection 2 of that clause, which is also subsection 2 of section 7, that this is the old standard form. The minister receives the report and he may thereupon wait thirty days before he presents it to the house; and if parliament is not sitting, then he must present it within thirty days of the next ensuing session. As Mr. Macdonnell points out, that may take it fifteen months to two years after the actual event. Surely we can streamline that section and have it presented thirty days after the minister receives it, whether parliament is sitting or not.

Hon. Mr. ABBOTT: All Mr. Macdonnell's point involves, as I understand it, is that the information in the report be made public within six months from the end of the fund's fiscal year and not longer than that.

Mr. MACDONNELL: The ordinary parliament is apt to adjourn early in July.

Hon. Mr. ABBOTT: As the committee knows, the Companies Act provides that the report must be laid before the annual meeting of the shareholders, not later than four months after. This is only two months later than that.

Mr. MACDONNELL: Actually it may come after the adjournment of parliament and perhaps you could make it five plus one.

Hon. Mr. ABBOTT: If a proper amendment could be made which would provide that the report be submitted to the minister within a six months period, then, if parliament were not sitting it would be made public within a limited period thereafter, say fifteen days. Would that meet your objection?

Mr. MACDONNELL: I am very anxious that this should come out while parliament is sitting.

The WITNESS: As Mr. Jackman has pointed out, the six months period is a maximum period. Section 39 subsection 1 reads as follows:—

39. (1) The board shall, within six months after the thirty-first day of December in each year, submit to the minister a report, in such detail as the minister may from time to time direct, covering the operations of the board for the twelve months ending on the said thirty-first day of December.

*By Mr. Macdonnell:*

Q. Don't you know that very often maximum becomes minimum.—A. I would point out that in the case of the report of the Foreign Exchange Control Board, the report discloses figures as of the end of 1945 and was addressed to the minister on March 1st of this year. There will be no particular reason that I can see why either the Foreign Exchange Control Board or the minister should desire to delay the tabling of the report unless there was a good reason such as the publication of the report leading to speculative activity.

Q. I would be perfectly content if you put a shorter period in there with a reservation that, if in the minister's judgment it should be delayed, then it should be delayed.

Hon. Mr. ABBOTT: Let us give some consideration to Mr. Macdonnell's suggestion and, when we do come to section 39, we can suggest an amendment which would meet his point.

Mr. FLEMING: Some one should take the responsibility—presumably it is the minister—for holding the report and not tabling it in parliament within a month, if these special circumstances were thought to be present. It is the minister's responsibility not the board's.

Hon. Mr. ABBOTT: My own view is that if it is possible to do so, there should be a maximum time fixed in the Act within which the report must be published, preferably by tabling it in parliament. I feel that would give the best protection to the public who are interested in the operations of the board. I think there should be a maximum period fixed in the Act beyond which the minister is given discretion, if it is possible to do that. The present maximum is six months, as Mr. Macdonnell points out, and if parliament is not in session, it might run to twelve months or even longer. I suggest one thing, that when we read section 39 we should give consideration to whether we can suggest an amendment which will achieve the object of making it obligatory upon the minister to publish the report not later than six months after the 31st December.

Mr. IRVINE: In that case I suggest Mr. Macdonnell should start drafting such an amendment now because we will be reaching section 39 in a very short time; I would imagine by half past five.

Mr. JACKMAN: May I suggest that we tackle this problem right away. We are dealing with all the clauses under the exchange fund account, and while we are on this problem, this section 7 has to do with the making of

advances by the minister to the fund, and that clause that the report should be made within thirty days after the 31st day of March in each year. We have just changed clause 2 to say that the minister shall report to parliament after thirty days, after the 31st day of March in each year. Just insert: "The minister shall report to parliament if parliament is sitting; or otherwise publish within thirty days."

Mr. MARIER: As a rule we are not sitting in March.

Mr. JACKMAN: It would be dependent upon that contingency.

Hon. Mr. ABBOTT: I would point out that section 7 only relates to the total advances made by the minister to the exchange fund account. It would not disclose the amount of foreign exchange held by the fund which, I take it, Mr. Rasminsky, is the information which might cause undue speculative activity.

Mr. JACKMAN: I think that this report under section 7 might be of considerable interest to the people because what we are concerned with is the amount of money which the fund may make or lose on its operation. It obviously calls for advances by the minister. The minister receives a report of the fund on March 31, and within thirty days he must report to parliament, if sitting. What I suggest is, if parliament be not sitting, that the report be otherwise published.

Hon. Mr. ABBOTT: It is only a report of advances made by the minister to the fund which, at the moment, totals some \$1,300,000,000; but that is only one item of information in the account of the fund.

Mr. JACKMAN: But it is a rather important item.

Hon. Mr. ABBOTT: It is a very important item, of course, but it is only one item.

Mr. JACKMAN: What is the objection of the minister to inserting there: "If parliament is not sitting, otherwise published."?

Hon. Mr. ABBOTT: You mean put this on the same basis as the other one.

Mr. JACKMAN: Yes, so that we may not have to wait possibly two years.

Hon. Mr. ABBOTT: I have no objection to that information being published if parliament is not sitting; but I cannot agree that there should be inserted a condition that the report of the full operations of the fund to the minister should be disclosed at that time.

Mr. IRVINE: Parliament would meet in plenty of time to get the first report.

Mr. JACKMAN: There is no objection to that.

*By Mr. Fleming:*

Q. Has there been any maximum observed in this power of advancement under the unappropriated moneys of the consolidated revenue fund? Is there a maximum limitation on the amount of the advances made?—A. No, sir. I do not see how it would be practical to set a maximum limit unless one is setting such a limit at an extremely high figure, because the amount of advances which is required by the exchange fund depends, of course, upon the fund's holdings of foreign exchange. The exchange needs Canadian dollars for the purpose of acquiring foreign exchange. Now, to set a maximum limit would involve an estimate from time to time of the maximum extent to which holdings of foreign exchange might rise. Moreover, it is a government asset in the form of foreign exchange which is being acquired with the moneys advanced. For these reasons it was not thought either possible or desirable to fix any maximum limit.

Q. May I follow that with two questions; the first is, what is the maximum amount that such advances have been at any one particular time since the fund has been in existence; and, in the second place, is there any reason to anticipate that over an appreciable period now—we will say two or three years—that the

amount will be exceeded that is the unappropriated moneys of the consolidated revenue fund?—A. The reply to the first question will be found on page 38 of the Foreign Exchange Control Board report, which shows the outstandings at the end of 1945 were \$1,300 million. As to the second question, that involves a conjecture as to the future of Canada's balances of payments on both current account and capital account, and there are so many unpredictable items that I do not think it would be possible for me to make any conjecture.

*By Mr. Hazen:*

Q. Is it customary for ministers of the Crown to make advances to foreigners without the authority of parliament, or is this something new?—A. Of course, the authority to make such advances will have to be voted.

Q. That is what I wanted to find out.—A. By this Act, I mean.

Mr. MARIER: If we accept this Act we give the minister that power.

Mr. HAZEN: Not as I understand it. Does it have to be voted or not?

Mr. MACDONNELL: He means this bill, this Act.

The WITNESS: I mean by this Act. If this bill is passed the minister will have the authority to make advances from the exchange fund account.

*By Mr. Hazen:*

Q. Without a vote by members of parliament?—A. Without a specific vote of parliament for each advance; yes, sir.

Q. Is there any other legislation in which there is a similiar provision?—A. I do not know. There were similar provisions in the War Appropriations Act. I would like to point out to the committee that these advances are advances from the minister to himself. The moneys that are advanced are not paid out to third parties. In fact I have heard the view expressed that this authority to make advances is unnecessary because the exchange fund account is itself a part of the consolidated revenue fund. However, in order to keep the bookkeeping straight it has been thought desirable from the beginning to regard these as advances from the Minister of Finance to the special exchange fund account in the name of the Minister of Finance, and the only thing for which these advances can be used is for the purpose of acquiring foreign exchange. They cannot be spent.

*By Mr. Fulton:*

Q. On that point, Mr. Chairman, I would like to ask a question. As I understand it an expert is to be called in later to give evidence to the committee on some other aspects of this foreign exchange question. I take it that such a witness will be able to explain the mechanics of revaluation of the \$1,500 million of American funds, and the effect which the exchange rate had on changing the value of the Canadian dollar, when the American dollar was restored to par. I take it that by that process the fund lost \$1,500,000.—A. Mr. Fulton, I am sorry. In my evidence on the first day, which I believe has now been printed and circulated, I gave a detailed exposition of the losses suffered by the board as a result of the change in the exchange rate.

Q. Well then, let me ask you this very specifically; did the board lose any money?—A. The revaluation of the board's inventory on foreign exchange involved a writing down of the Canadian dollar value of that inventory, yes.

Q. Then I wonder if the minister would consider it advisable that there might be some limit written into the Act as to the amount of any particular one currency the board might hold at any one time. The suggestion was made at one time that the holdings should be in terms of gold, that should there be any large amount of holdings gold should be held, then when it is required to buy

Canadian currency it could be bought with gold. Then every dollar sold at a premium over the United States dollar would bring us a benefit and in that way we might avoid losses such as have been incurred on this occasion.—A. When the board revalued its assets after the change in the exchange rate, the board naturally revalued its gold holdings in the same way as it revalued its holdings of foreign exchange. The board has previously carried its gold holdings at the Canadian dollar price, \$38.50 per fine ounce, with certain adjustments for the cost of transportation and shipping. When the Minister of Finance announced the change in the exchange rate that automatically involved a revaluation of the gold on a basis of \$35 per fine ounce, so that the so-called loss in the revaluation of gold was exactly the same proportionately as the so-called loss on the revaluation of foreign exchange.

Q. You have not quite answered the question. Probably I did not make it clear enough. Would it be advisable or is it necessary to put any limits as to the amount of foreign currency which the board may hold at any one time so as to obviate loss owing to devaluation of that currency?—A. No, I do not think it is advisable to impose any such limits. This measure provides safeguards against the mechanism of the Foreign Exchange Control Board accumulating foreign exchange being used as a method to extend credit to foreign countries by requiring approval of the Governor in Council for holdings of currencies other than currencies which are generally acceptable for the settlement of international balances, namely gold and United States dollars. I take it therefore that your question must be directed to whether it would be advisable to put a limit on the board's holdings of gold or United States dollars. I think that question must be answered in the negative. What would be the effect if such a limit were imposed and then the limit was reached? Let us say that a limit was imposed at 1,000 million dollars, and the board then came to the position where it held \$999,000,000 and an exporter came along and tendered \$1,000,000 or \$1,000,001. Acting under such a limit the board must refuse to buy those American funds. What happens in this circumstance, of course, is that the board loses control of the exchange rate, that the exchange rate, which has hitherto been stabilized by the willingness of the board, acting on instructions from the Minister of Finance to buy and sell foreign exchange at a fixed rate, must get out of hand because there is no stabilizing influence. One can say that the accumulation of large amounts of foreign exchange is a factor which tends to raise the value of a currency. That is perfectly true but I do think it could be very undesirable and completely impractical to fix any maximum limit on the board's accumulation of gold or American dollars.

Q. I do not understand why the board would be tempted to carry as much as a billion dollars at a time. I can understand it reaching that level but then I would imagine it would be disposed of gradually and built up again.—A. What would you suggest that the board do about it? If the board is acting under instructions to stabilize the exchange rate and is offered more American dollars than there are purchasers of American dollars so that the board's holdings of American dollars are tending to increase what steps could be taken, even if it were thought desirable to offset such an increase? The board after all is not an active agent. The board does not spend American dollars. The board merely stabilizes the price of American dollars by buying and selling at a fixed rate.

*By Mr. Jackman:*

Q. If I may suggest to you that is one of the reasons why I wonder whether the benefits really outweigh the objections to this control by the board. If more American dollars were being offered than were required by Canadians the rate of exchange in place of remaining at 10 per cent as a

pegged rate would tend to fall until perhaps it even went to a discount. What happened, as I understand it, is that the board stood ready to take all American currency offered to it, until the recent devaluation or upvaluation, at 10 per cent premium, and eventually I suspect they found that the bag got so large they said, "We will take a drastic step and we will equalize the exchange rate between the United States and Canada and in that way discourage the supply of American dollars". That is done by making it less profitable for Americans to buy in our market. Everything costs 10 per cent more to American purchasers, and therefore there are not as many American dollars being offered. That is why I feel that the normal working of economic forces that are present in exchange rates is much better than this controlled and arbitrary fixing of rates of exchange which sometimes lead to a situation where so much is offered in American dollars that we have to take a very drastic step and have a 10 per cent change overnight throwing many people into consternation and for the moment, at least, putting out of business a large part of our mining industry whereas if the natural working of economic forces had been allowed to operate then the excess of American dollars would reduce the desire of all Canadians to buy them. There would not be the demand for them and the normal exchange rates would fall gradually, 10, 9, 8 per cent, until they equalized themselves through this normal operation. Is that not a fair statement?—A. I should like to make two comments on it. The first is that in his statement of the reasons which led the government to decide to change the exchange value of the American dollar the Minister of Finance did not include the reason which you have given, namely, that our holdings of American dollars were embarrassingly large. That was not given by the Minister of Finance as one of the reasons which prompted the government to take that action. The second comment I should like to make is that the natural working of the economic forces to which you have referred is illustrated on page 8 of the report of the Foreign Exchange Control Board which shows the fluctuations in exchange value of the Canadian dollar from 1919 to 1939. I think that you will agree that the natural working of economic forces produced a fair amount of fluctuation of a disturbing character in the exchange value of the Canadian dollar during that period.

Mr. MACDONNELL: We would rather take another period.

Mr. JACKMAN: I am quite content with that period, but if I may suggest I would qualify your statement by the fact that the real valley in that chart is due to the fact that England went off the gold basis in 1931, and while I will not call it artificially imposed it was the effect of the gold standard and over-valuation of the pound in 1925 or 1926, and once again I do not think that was exactly the normal working of economic laws. It was an attempt of Britain to go back to the gold standard at a valuation for the pound which was higher than it should have been. If you look at the chart you will find during the period from 1924 to 1931 the Canadian dollar had a remarkably constant value and was not subject to excess fluctuations. The period after the pound sterling devaluation was also well within the 6 per cent which is a good deal less fluctuation than the 10 per cent which we have just experienced a week ago.

*By Mr. Macdonnell:*

Q. Arising out of that I should like to ask this question, which appears to me practical. You have described very clearly what happens and if I understand you correctly the duty of the board now is to make good, so to speak, the parity which was established the other day by executive act of the government. In other words, your duty now is in effect to buy or sell currency to keep that rate now. You have no discretion to alter that rate as such?—  
A. No, sir.

Q. That rests with the government. Now, is it clear to you that it is in the interests of business to maintain that rate? Let us assume you see that rate going against you and you begin to doubt whether it can be indefinitely maintained. Would you think it was better to go on maintaining it for as long a time as you could and then have a very substantial drop to a new level rather than have a day to day fluctuation but a gradual process of readjustment?—

A. As I understand it you are not asking me to comment on the policy of changing the exchange rate. Your question is if it becomes clear that an exchange rate change of a given magnitude, let us say 10 per cent, is needed is it desirable to make that change with one fell swoop or is it more desirable to make it by a series of 2 per cent changes? Is that your question?

Q. I suppose my question might be better stated this way. In part I am inclined to agree with you that while the thing is as it is it would be unwise to impose a maximum for the very reason you give. Some fine day will arise when a maximum would cause great confusion, but what I want to ask is this. Under the tendency of the present arrangement it would seem to me you go a long way to maintain this rate, and even though perhaps natural laws, if there are any such things in economics, would be gradually making a change, the tendency and I take it the definite principle of this is to maintain it as long as you can even though the result will be at the end that there is a rather violent readjustment. Is that a fair statement?—A. I do not think that it is. I do not think that there is anything in this legislation which creates any tendency on the part of the government to maintain any exchange rate at any level or for any given period of time. I do not think that it would be fair to say that there is an inherent tendency in an exchange control system to defer making a necessary change until a lot of trouble has accumulated, which I take it is really the situation you have in mind.

Q. Let me put this question. Let us assume there are such things as natural laws and that you who are sitting in the exchange control board are capable of observing them as well as anyone else. Is it likely that under the present system we will have a gradual adjustment? Let us assume for five or six years now you have had a definite standard maintained, and I take it for reasons of war, and what not, it was necessary to do that. Is it consistent with this Act and with the policy which the board is likely to follow to make gradual readjustments up or down of, let us say, possibly half a per cent now, one per cent again, or is it likely, and does the history of the exchange board show, that you will work towards an absolute level for as long a period as possible and then a more violent readjustment, a more substantial readjustment? In other words, are you against readjustments from time to time?—A. No, sir.

Mr. IRVINE: Before you answer that may I ask if the question put by Mr. Macdonnell is not one of government policy and you merely have to do with the instructions which will carry it out one way or another? Is that not the relationship?

The WITNESS: Yes. The question of the level of the exchange rate and the ways in which the exchange rate might be varied from time to time are really questions of government policy rather than a question of exchange control.

*By Mr. Macdonnell:*

Q. Yes, but is it not possible for the chairman of the Foreign Exchange Control Board to communicate with himself as adviser of the government and thereby have a conclusion reached which might affect the views of both?—

A. No, sir. On that question I certainly would not attempt to reflect the views of the government.

*By Mr. Harkness:*

Q. Is the situation not actually this at the present time that the exchange rate which we had up until a few days ago, and the exchange rate we have at the present time were both artificially set as a result of agreement between our government and the government of the United States?—A. No, sir.

Q. Then how were they set?—A. They were set by decision of the Canadian government.

Q. Then I take it there was no material change in your holdings in the foreign exchange control fund as between now and last week, or ten days ago, when the exchange rate varied by 10 per cent. Therefore, as far as I can see, it must have been a matter of keeping it at that artificial level throughout the war and now suddenly raising it to another artificial level?—A. It seems to me the only inference that can be taken from the facts is that at some time before July 5, 1946, the government came to the conclusion that the rate of 10 per cent discount was no longer an appropriate rate for Canada. The considerations which led the government to come to that conclusion may have been of various sorts but I take it they were described fully by the Minister of Finance when he made his statement in the House on July 5.

*By Mr. Fulton:*

Q. I want to come back to the point I was on before. It takes a lot of thinking to catch up with Mr. Rasminsky. That is why I have been waiting all this time to ask a question. You gave as a reason why it would not be desirable to set a limit that you might approach that limit and then somebody might offer you something which would carry you just over it and then you could not take it. I do not quite see how that would fit in with the terms of the Act when under section 23 nobody may pay, lend or otherwise dispose of Canadian currency to a non-resident and under section 26 nobody may import any property into Canada except in accordance with a permit. Therefore it seems to me the only way in which anybody would offer American currency to the board or want to buy American currency through the board would be as the result of some movement of goods.—A. Movement of goods or other valuables. It might be services; it might be securities.

Q. Then if the board is forced to buy the situation might be the way you put it but to my mind it seems the board has got to take up any offerings which are made to it?—A. In order to peg the exchange rate.

Q. If the board is forced to buy as much as a billion dollars worth of American exchange and must buy every time it is offered in order to keep the exchange rate then it seems to me Canadians must be importing more from the United States than they are selling to the United States?—A. No, it would be the opposite, would it not, that we were selling more to the United States than we were buying from the United States, since it is exports that give rise to the sales of American funds to Canadian banks.

Q. That is right. Therefore there would be a disproportionate balance of exports over imports which has given rise to the large amount of money in the hands of the board; is that correct?—A. That is a possibility. That is a possible source of United States funds to the board. In point of fact the actual sources of United States funds have not been those that you have described. The actual sources of United States funds are set out in table 5 of the Foreign Exchange Control Board Report at page 21, which shows that of the \$1,100 million increase in our liquid reserves during the war period the great bulk was accounted for by increased American holdings of Canadian securities, and increased sales by Canadians of American securities. In other words, the bulk

of the increase in our liquid reserves was not due to an export surplus, not due to a surplus in the export of goods from Canada, but it was due to transactions on capital account.)

Q. Well, the board itself does not exercise any control over that movement, but regards itself rather as bound to take up any offerings of American capital which may appear desirable in upholding the exchange rate?—A. The position is that in order to maintain a stable exchange rate the board has to be prepared to buy and sell exchange at fixed prices. The actual transactions for which the board is prepared to provide exchange and the actual transactions in respect to which the board is prepared to accept offerings of exchanges constitute the exchange policy of the government and that policy may be varied from time to time. As things stand at the moment the Board is prepared to buy and sell exchange in respect of all current account transactions. It is also prepared to buy dollar exchange in respect to capital transactions, that is the sales of securities abroad. It is prepared to sell exchange in respect to certain types of capital transactions, in cases where Canadians wish to engage in direct productive investment abroad; but it is not prepared to sell exchange in respect of other types of capital transactions, for example, for the purchase of marketable securities or for the mere transfer of funds abroad. That roughly is the exchange policy of the government at the present time as administered by the Foreign Exchange Control Board. That also might vary in certain respects from time to time.

Q. Well then if you are prepared to facilitate the transfer of exchange on securities, something of that kind you say, results in investors increasing holdings of American exchange resulting very largely through the purchase by Americans of Canadian securities, is there not going to be confusion?—A. I am sorry, I did not get that.

Q. I understood you to say that you would not sanction such transactions in future. Then I cannot see why it should be so undesirable to have a limit on the amount of exchange you can hold.—A. There has been no change in policy. Let me put that this way, that none of the policies which have been operating during the last few years have been altered in any material respect; therefore there is no reason to believe that so far as the foreign exchange control regulations and procedures are concerned the increase in our exchange holdings which has gone on during the last couple of years has now come to an end. There may be other reasons which are quite disassociated from foreign exchange control regulations or procedures to anticipate changes in our balance of payment. But, as I indicated before in reply to the general questions from Mr. Fleming, that involves conjectures of very unpredictable items on both the current and capital account, and it is the difficulty of making these conjectures which makes it appear to me to be quite impractical to set any limit on our holdings of exchange.

The CHAIRMAN: Have you finished with your questions, Mr. Fleming?

*By Mr. Fleming:*

Q. I do not know if this information has been given before, but I will put my question very briefly: what is the rate on the purchase and the sale of American currency set by the board or by the minister?—A. When you refer to American currency—

Q. All right, we will say the rate you have been applying all through the war, \$1.10 on sale, and \$1.11 on purchase.—A. That was set by the minister.

Q. It was set by the minister and simply applied by the board?—A. That is right.

Q. Did the board advise the government as to the rate to be established?—A. No, sir.

Q. The board does not concern itself, I take it, in that respect with more than administering the exchange according to the rates set by the government?—A. That is right.

Hon. Mr. ABBOTT: As I said the other day, the government in making decisions on matters of that kind consulted financial advisers; the deputy minister of finance, the Governor of the Bank of Canada and experts of the foreign exchange transaction side, gentlemen such as Mr. Rasminsky here; but the decision is a decision of the government, was such in September, 1939, when a foreign exchange control was established, and the revaluation which was made a week or two ago was a decision of the government and not of the board.

Mr. HARKNESS: Following what I said a while ago about this being an artificial rate of exchange, the government sets this rate of exchange and then the exchange control board supports that price by buying and selling American dollars for exchange, and in so doing what you might call the natural laws of supply and demand are disregarded as long as it can be disregarded, and when it can no longer be disregarded there is a sudden switch up or down. Is that briefly the situation?

Mr. STEWART: Who establishes the rate of exchange?

Mr. HARKNESS: Just a minute, Mr. Stewart; I want to get an answer to that question.

The WITNESS: The exchange rate under the exchange control system represents from time to time the government's anticipation of the appropriate rate for exchange transactions. It is forward looking as well as backward looking. If changes occur in underlying factors, such as price levels abroad, or foreign exchange holdings—a whole variety of factors—it may cause the government from time to time to alter its views regarding the anticipated course of events and consequently regarding the appropriate exchange rate. When the government alters its views it instructs the board to buy at such new rates as it may decide.

Mr. HARKNESS: And it all comes down to this, that the rate will be maintained at the established point which is set as long as it possibly can be held there.

Hon. Mr. ABBOTT: Not necessarily, no.

Mr. HARKNESS: But, as economic conditions force it away from that you get a sudden rise or drop.

Mr. IRVINE: And that sudden rise or drop would be determined by economic conditions.

Mr. MACDONNELL: That is right, inevitably.

Mr. HARKNESS: What I am getting at is this, that it is the natural economic laws which determine this in the long run. This foreign exchange control is set up for the time being, but in spite of that we are bound to have these material changes up and down.

Hon. Mr. ABBOTT: You know, Mr. Harkness, the purpose of exchange control was to attempt to insure relative exchange stability amid abnormal conditions. That is why it was brought down in September, 1939. That is the way it is being done today. The average citizen who is producing and selling goods is more interested in a stable exchange rate than he is in a rapidly fluctuating one which would enable speculators to make substantial profits; and the government felt, rightly or wrongly in 1939, and still feels that conditions are such that exchange control in some form must be continued.

Mr. HARKNESS: I am not arguing that, Mr. Abbott; I was simply asking the question if this essentially was not what was happening and going to happen.

Hon. Mr. ABBOTT: But you wanted to know what appreciation the government had of what should be the exchange value of its currency unit, for the safeguards placed on it. You are setting up a government agency to administer that process.

Mr. HARKNESS: Now I am getting an answer.

Hon. Mr. ABBOTT: I am sorry; I thought everybody realized that; it is pretty elementary.

Mr. JACKMAN: Might I ask the minister (Hon. Mr. Abbott) if the chief purpose of this exchange control is to permit our importers and exporters to have a fixed rate for buying and selling on foreign exchanges so that they will not have to worry about small fluctuations? Is that the chief purpose of this? I should think that, whilst it is very beneficial and very pleasing for business men to have such assurance, it would be the very least of the reason for this bill.

Hon. Mr. ABBOTT: There are other reasons for it, for exchange stability. One is to ensure an exchange rate which will continue relatively stable; the other is to ensure—Mr. Rasminsky will correct me if I am wrong, because I am perhaps a little bit out of my field, so to speak, in discussing this—the second purpose is to ensure that our foreign exchange resources are utilized to the best advantage.

Mr. JACKMAN: That is the chief reason, I should think.

Hon. Mr. ABBOTT: It is the principal reason.

Mr. STEWART: Are there many free exchanges in the world today?

The WITNESS: No, sir; there are practically none other than the United States dollar; and the United States itself has been operating a sort of exchange control system for the control of moneys other than their own. Their exchange control system is the Foreign Funds Control, which as you know has resulted in the blocking of certain foreigners' balances in American banks. But the answer to your question is that apart from the United States, and with that qualification, there is now virtually no important country in the world which is not operating an exchange control system.

Mr. FLEMING: May I ask this question: is the revaluation of the dollar in terms of gold under contemplation?

Hon. Mr. ABBOTT: That, of course, is the purpose of the clause, that is where the government is contemplating the revaluing of gold, which means a changing of the exchange rate. I do not know that that is a question I should answer. I should say that so far as I know the government does not, but it is like a lot of other things related to exchange; our actions are controlled naturally by the rates in the United States.

The CHAIRMAN: Subsequent to the amendment which Mr. Jackman has suggested to subsection (2) of section 7, and which the minister is going to take under consideration, may we carry sections 5 to 9?

Mr. JACKMAN: No, they are not carried. There are a lot of problems arising out of this section relating to the technique of the Act which are very important.

Mr. BLACKMORE: Louder, please.

Mr. JACKMAN: There are a great many questions which you, Mr. Blackmore, would appreciate as much as anyone on this committee. They have to deal with the development and operation of this fund, with the techniques of the Act. I think once we get them straightened out in our minds it will not be so difficult as the chairman may think to deal with individual sections. It is not so important to make numerical progress at this stage as it is adequately to understand everything involved by way of techniques and principle and so on. I think he will find he will make good progress in due course.

The CHAIRMAN: That was not my thought. My thought was that the same question by four different members of the committee and asked by each of them at least four different times, and I felt that we wanted to get under way.

Mr. JACKMAN: There were several questions that were taken up by members to which we have not yet received answers. Mr. Macdonnell asked a little while ago whether or not the Canadian economy was better off by reason of having occasional and drastic changes in exchange rates than having gradual week to week minor changes which foreshadow—economic trends.

The CHAIRMAN: That question has been bandied about for the last hour.

Mr. JACKMAN: And it has not been answered yet, Mr. Chairman.

The CHAIRMAN: I know.

Hon. Mr. ABBOTT: Mr. Rasminsky is here as an officer of the Foreign Exchange Control Board which is the administrative agency of the government, and while he is willing and glad I think to oblige members of the committee with such economic knowledge as he has, I do not think that he should be expected to deliver lectures on banking and currency to this committee or to express his personal opinions on what may well be matters of high government policy. He has gone a long way towards doing it and he has done very well, but that is surely a matter which is a matter of opinion; opinion, pure and simple; and all that Mr. Rasminsky can give you, Mr. Jackman, is his own personal opinion.

Mr. JACKMAN: That is what I am asking.

Hon. Mr. ABBOTT: That is all he can give you.

Mr. JACKMAN: We as members of the House are entitled to the best information available. If the minister wishes to give his opinion, of course, we can take it for what we consider it to be worth. However, I should like to ask Mr. Rasminsky whether or not the question which I put to him can meet with an answer from him. It is a matter of his own personal opinion which he can give. Does he think it better for Canadian economy to be subjected to these violent changes in rates such as we have just had, or does he think the country would prosper better, it would create more employment—I am speaking particularly of the gold mining industry—if the exchange rate were allowed to take a normal course. Having cited the mining industry, you know very well they have gone ahead with plans based on a 10 per cent exchange rate; they have engaged men to work for the full season; they have made contracts and wage agreements; they have contracted for a month in advance, even for the winter months, getting supplies in now that they cannot get in over the frozen lakes in the winter months; then all of a sudden they find without warning that the 10 per cent premium which has represented in many cases a whole margin of profit, has disappeared overnight. And now, if we had had a normal working of these economic forces which the government cannot change, eventually they have knowledge of them, they would have found in my humble opinion at least that the American dollar and their price on gold do not command a 10 per cent premium, they would have had a warning. Now, I am asking for a personal opinion. If Mr. Rasminsky cannot give it to us, or is not permitted to give it to us perhaps we could get it from somewhere else. This committee is certainly entitled to the information it believes to be useful in forming its opinion as to whether or not this Act is one which will improve employment, which will lead to a greater Canada, or one which will lead to a lowered economy and to a lowered standard of living than would otherwise be the case.

Hon. Mr. ABBOTT: And Mr. Jackman has made a very fine political speech which may be interesting, and to some members even funny; but I think that the question which he has asked Mr. Rasminsky—I have lost track of just what it was—is an improper question to ask one in Mr. Rasminsky's position, because while the question purports to elicit information, in effect it seeks to give it. The whole tenor of Mr. Jackman's remarks is, of course, to

indicate that he wants the witness to say that the system which has been followed of revaluing on a 10 per cent basis is not in the best interests of Canada's economy.

Now, if Mr. Jackman wants that evidence to be given to the committee, he could see that a witness who is not a Foreign Exchange Control Board official should come here for that purpose. I suggest that the question is an improper one to ask of Mr. Rasminsky.

Mr. JACKMAN: The members of this committee will know that the minister attempted to thwart my question.

Hon. Mr. ABBOTT: The question is obvious enough. There is nothing obscure about your question. I made the simple statement before you made your long political speech, that I thought it was an improper question to ask this witness.

Mr. JACKMAN: I appeal to the members of this committee whether it is of interest to them to know how it is best to run Canada's economy. We have had an experience here recently. The point is whether our economy is better off when natural economic forces are allowed to take their natural course. Is that a question which we should have answered? I think it is. And if Mr. Rasminsky is in the unfortunate position of not being able to give his opinion, which we value highly because he is a gentleman who has been concerned in these matters not as a side issue—as most of us are. So, I say to the committee, are we entitled to have information or are we not. If Mr. Rasminsky cannot give it to us, we should have someone else before us. I move that Mr. Rasminsky be asked to express his opinion as to whether or not the Canadian economy—whether greater work would be created by these drastic changes, or whether the slow foreshadowing working of economic laws through gradual changes is better.

The CHAIRMAN: I think in fairness to Mr. Jackman that Mr. Rasminsky should indicate whether he believes he should answer this question or not; and then let us get on with the next item.

Mr. JACKMAN: I think that is not fair to Mr. Rasminsky. His acting minister has said to him what he wants. I also take exception to the acting minister's suggestion that I was attempting to ask a leading question and attempting verbally to put words into Mr. Rasminsky's mouth. I intended nothing of the sort. What I was speaking was an honest opinion so that we, with our humble background, might be guided to some extent by a man who is in a position to know something about these matters.

The CHAIRMAN: You have pretty well expressed your opinion, Mr. Jackman. I think that the minister and every other member sitting around the table has the right to express his opinion as well, but I think we ought to ask Mr. Rasminsky now whether he would care to answer the question, and then we could take his answer. The question has been put to him a dozen different times.

Mr. FLEMING: Mr. Chairman, on a point of order?

The CHAIRMAN: Yes, Mr. Fleming.

Mr. FLEMING: I think it would be embarrassing and I do not think it is fair to Mr. Rasminsky to leave to him the decision as to whether he ought or ought not to answer the question. I think it is a matter for the chairman's ruling and the committee's decision in the last analysis. I take it that the reason the minister has given for his objection to the question being answered by Mr. Rasminsky is that he feels that Mr. Rasminsky is being invited to pass judgment on government policy which was involved in the decision of ten days ago. If so, I agree that it is not proper to ask an official to pass judgment on the government. But I would like to ask your consideration on this point: Mr. Jackman's question was of a general nature. It was not, as I interpret it, directed to that particular situation. He did not single that out. He did not mention it. As a matter of

fact, he asked if, in the opinion of the witness, it was preferable in the interests of Canadian economy, whether there should be from time to time these situations of drastic changes in the exchange rates, or whether it would be better to leave these rates, over a period of time, to be changed by the natural working of economic laws. If that is a fair interpretation of Mr. Jackman's question, then I think it is a proper question.

Hon. Mr. ABBOTT: If all Mr. Jackman's question means is this: is it better to have foreign exchange control or is it better to abandon it and leave exchange relations to the free play of the market, in the opinion of this witness, I suppose I could not take serious objection to the question, although it would imply a criticism of government policy, of which government he is a servant; because that government has decided by the mere fact of presenting this bill that continued exchange control is necessary. So it seems to me that I must say that any way you put Mr. Jackman's question, if the witness is to express an opinion—unless it be one that the government policy is sound—he must criticize it, because he must do one thing or the other.

Mr. MACDONNELL: Might I get in on this. Let me have a shot at asking this question. Perhaps it would satisfy Mr. Jackman. I do not think Mr. Rasminsky should be asked to say whether he should answer the question or not. What I asked was this: whether it was possible, within the four corners, whether Mr. Rasminsky thought it was a feasible way of operating the board. I intended my question purely as a theoretical one; whether it was possible to operate, whether the board could appraise actions from time to time, in such a way as to make small changes which would approximate more to what did happen when the market was operating free from these foreign convulsions. I think you will recall what happened in 1925 and 1931. Is that a fair question, whether it will be possible, looking to the future, to have it dealt with in that way or to leave it at that?

The CHAIRMAN: I would think that the question, in the form in which Mr. Macdonnell has put it, would be more objectionable than in Mr. Jackman's form. But I still think that Mr. Rasminsky is quite capable of stating his opinion as far as he believes he should go. I am going to leave it to Mr. Rasminsky.

Mr. JACKMAN: May I just say a word before he answers. I think that the minister is altogether too apprehensive politically.

The CHAIRMAN: I do not think anything is to be gained by talking that way. You are not even fooling yourself, Mr. Jackman.

Hon. Mr. ABBOTT: No; but when you speak in the banking and commerce committee about a greater Canada, I am all in favour of that; but it has not very much to do with foreign exchange control.

Mr. JACKMAN: It may be but there still may have been very good reasons, on other accounts, for changing the rate that we did.

The CHAIRMAN: On an open market, fluctuations may have been much wider.

Mr. JACKMAN: I suggest we are all speaking the truth in this matter. I do not think that politics have very much to do with it.

Hon. Mr. ABBOTT: They should not have.

Mr. MAYHEW: You are suggesting that we have had violent fluctuations in the exchange. We had one violent fluctuation due to a number of circumstances. This has been kept now from 1939 to 1946, seven years.

Mr. JACKMAN: A businessman in this country—

Mr. ISNOR: I could not hear Mr. Mayhew. Would he complete his statement, please.

Mr. JACKMAN: I thought that he had finished.

Hon. Mr. ABBOTT: Your interruption took away part of his remarks.

Mr. MAYHEW: Mr. Jackman is leaving the impression in this committee that there had been frequent and violent fluctuations and that they would continue, when, as a matter of fact, we have had a steady foreign exchange now since 1939, up to July 1946. So why give the impression that we cannot control it from now on.

Mr. JACKMAN: If my question was not perverted so much, it would be extraordinarily simple. Mr. Macdonnell's question was whether or not it was better for Canadian economy to have foreign exchange, or better to have gradual changes such as take place in a free market. When Mr. Ilsley made his announcement, I saw one of the senior ministers of the government and I discussed it with him. My final rejoinder was: that businessmen are trained to read and interpret economic events, but they cannot read what is going on in a minister's mind.

Mr. FLEMING: And can the minister?

Mr. MACDONNELL: Not always, anyway.

Hon. Mr. ABBOTT: No comment, Mr. Chairman.

Mr. IRVINE: Mr. Rasminsky, wouldn't it be—

Mr. FLEMING: I have a suggestion to contribute. I think we would probably get further ahead, if we adjourned now.

Mr. IRVINE: I second that.

The CHAIRMAN: Shall we adjourn until 8 o'clock?

The WITNESS: I would like to allay any misgivings on the part of those who thought I was being subject to some pressure from the minister not to answer. I would remind the members of the committee that upon each occasion during the course of these hearings when the question of the exchange rate has been raised, I have declined to answer on the ground that it is a matter of government policy upon which it would be inappropriate for me to comment. Whatever may be the specific form of the question put to me, it is perfectly clear, in the light of the discussion that has taken place, that it would be construed as a comment on the recent action of the government in exchanging the exchange rate. It would therefore be inappropriate for me to answer.

The CHAIRMAN: We shall adjourn now until 8 o'clock.

Mr. HAZEN: I think we should call some experts to give evidence before this committee before we pass these sections which you have asked us to pass.

The CHAIRMAN: You may have the floor at 8 o'clock when we re-convene, Mr. Hazen.

The committee adjourned at 5.55 p.m. to meet again at 8 p.m. tonight.

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## EVENING SESSION

The Committee resumed at 8 o'clock.

The CHAIRMAN: While we are all in good humor shall we carry sections 5 to 9?

Hon. Mr. ABBOTT: With the exception of the amendment that is going to be considered to section 7, subsection 2. I have a suggested amendment here but I had better get the lawyers to look at it.

The CHAIRMAN: All right. Now we come to foreign exchange control board, constitution and administration.

Mr. JACKMAN: The main question, of course, remains unanswered, but we did have the statement twice by the witness incidental to answers to other questions that outside speculation—speculation was the word he used—might interfere with the operations. I have just forgotten the exact questions which were then under discussion. I know what it was. It was in regard to publication of the annual report in early time, that that might lead certain people to know Canada's position in regard to the fund and might cause them to take certain actions which I believe are characterized as of a speculative nature. Having read this bill over very carefully one might have thought—and I am sure many members of the committee would think—that complete control was in the hands of the board in regard to our own currency. I wonder if the witness would be good enough to say just what speculation and by whom he fears influence on Canada's dollar?

The WITNESS: I can give one or two examples of it. The board can, through granting or refusing to grant permits, control the type of foreign exchange transactions that take place. It cannot, however, control the timing of the transactions. The timing rests with the individual applicant. An importer of goods who anticipated a certain movement in the exchange rate might, notwithstanding the existence of exchange control, prepay, pay promptly or delay in making payment for his imports.

*By Mr. Jackman:*

Q. But you can hardly call that speculation?—A. Well, I have called it speculation.

Q. But you have never used the wrong word for the wrong idea heretofore.

The CHAIRMAN: The customer might think it was the right idea.

The WITNESS: I referred to that as speculative activity, and though I certainly am willing to be corrected in the misuse of language, if an importer or exporter or anybody is influenced as to the time at which he will make payment for a normal transaction on account of some consideration that the exchange rate may change then I do call that speculative activity.

*By Mr. Jackman:*

Q. May I suggest that we were discussing the tabling of the report of the board. That was hardly, and I can scarcely conceive it to be, the type of thing you must have had in mind when you referred to the danger of someone seeing the state of the fund in a period less than six months after the actuality leading to certain speculative operations. After all the operation you have just outlined is a perfectly normal one which any business man would endeavour to exercise his best judgment upon, and the sum total of them would not be great nor is it something that we would describe as nefarious, if you like. Is there any possibility of strong speculative influences being brought to bear that cannot be corrected by the present Act? Is it deficient in that regard because, as you suggested, a person seeing this report shortly after the end of the year might be able to guide his activities with ill effects on the economy. That is what I took from your answer and you mentioned speculation twice in that respect, but I think it went far beyond the normal covering of commitments on the current account. I think to me at least it had to do with capital account transactions. It might even have savored of hot money transactions. Are there any possibilities of speculative activities having an influence on the Canadian dollar which are not controlled now in the bill under discussion?—A. I think the combination of the controls provided in this bill with the delay which is envisaged in the publication of the figures relating to the board's exchange position provide all the essential safeguards that are needed to control speculative activity.

Q. Is is a pretty ironclad controlled dollar that we are to have under this bill?

*By Mr. Macdonnell:*

Q. You spoke a moment or two ago that you could control it pretty well by the granting or refusing of permits to importers or exporters?—A. Excuse me, I do not think I could have said that control would be exercised on importers or exporters. If I did say that I was certainly mistaken because I previously testified that the board in fact does not control imports or exports of goods. What I had in mind, of course, was through the granting or withholding of permits involving capital transactions.

Q. I see. I misunderstood you.

The CHAIRMAN: Mr. Hazen, while the committee has carried the sections down to and including section 9 I promises you you would have the floor.

Mr. HAZEN: There is one question I was going to ask about section 3. It was not quite clear to me. Does that deal with Crown companies?

The CHAIRMAN: That goes back to yesterday.

*By Mr. Hazen:*

Q. I just wanted to ask what that section means. Does it refer to Crown companies or what is it? I do not understand it.—A. Section 3?

Q. "His Majesty is bound by this Act", and so on. What does that mean? Does it refer to Crown companies or what does it mean?—A. Mr. Tarr will answer that with your permission, Mr. Chairman.

Mr. TARR: Under section 16 of the Interpretation Act "no provision or enactment in any Act shall affect in any manner whatsoever the rights of His Majesty unless it is expressly stated therein that His Majesty shall be bound thereby." This bill is intended to apply to the Crown in all its aspects, therefore this provision is put in.

Mr. HAZEN: What you have in mind there would be Crown companies, that sort of thing?

Mr. TARR: Crown companies would certainly be included as "residents" for the purposes of this bill as well as provincial governments and departments of government.

*By Mr. Hazen:*

Q. There is another point on which I am not quite clear in connection with section VII. I might put it this way; is it a good thing to let the Minister of Finance under our form of government have the power to make advances from time to time out of the consolidated revenue fund to any other accounts standing in his name—or to accounts standing in his name, I suppose I should put it—without a special vote of the House of Commons? Now, that has reference to section VII. Can you tell me this, did he have power of this kind prior to the war; was power of this kind ever exercised by the Minister of Finance prior to the war?—A. In order to answer that question I will have to run over again the ground that I covered in attempting to answer the question before the dinner recess. The power did not exist before the war because there was no occasion for it.

Q. There was no occasion so far as exchange was concerned, perhaps I should say in so far as the objects you have in mind are concerned; but I thought possibly that in some other connection a similar provision might have been put into some other Act.—A. That may be the case, Mr. Hazen, I do not know. I do not know of any other Act in which the Crown has been given authority to make advances—

The CHAIRMAN: Is that all you wanted to know, Mr. Hazen?

The WITNESS: I mean, without a monetary limit being fixed.

The point of the power of this kind is, of course, that the advances are made from one pocket of the minister to another pocket of the minister. The assets which are acquired by the minister remain the property of the minister and they can only take the form of foreign exchange.

Q. I think you mentioned before dinner something about this, there was some discussion as to why there should be anything like this in the Act.—A. I said before dinner that I had heard it stated that it was not in fact necessary to make special provision for advances from the consolidated revenue fund to the special exchange fund in the name of the Minister of Finance, but that view of course has not been upheld since provision is made for such advances in this measure.

Q. We have books by authorities on matters of this kind, for instance there is Nelms on Parliamentary Grants, and other technical books, and authorities of that nature that I am not I must confess very familiar with, but they are in the library. What I have in mind is this, if this is the right thing to do, to say to the minister you can transfer any sum you like from the consolidated revenue fund to any other fund without getting specific authority from the House of Commons. I am not an authority on this, but it does seem odd to me. It seems to me to be reducing the power of the House of Commons and putting more power into the hands of the executives.

Mr. TARR: Mr. Hazen, one particular case which I happen to recall is, in the Harbour Boards Act where there is power for the government to make advances to Harbour Boards for working capital purposes. There is a maximum limit stated there. I do not think that the principle of giving the minister or the government power to advance funds to any particular branch of the government is a new principle. The only new feature of this provision is I think the absence of any overall limit.

Mr. HAZEN: I am not speaking as an authority, I am just asking for information. There should be a special vote, as I see it.

The CHAIRMAN: Does that cover the questions you wanted to ask, Mr. Hazen?

Mr. HAZEN: I wish I could have an answer.

Mr. JACKMAN: Perhaps the minister doesn't want to answer this: would the minister tell us this, whether the money which is used for the fund must first of all be appropriated by parliament. In other words, the Minister of Finance in his budget remarks said that in addition to the ordinary budget we would have to provide cash for certain active assets among others being grants or advances to the Foreign Exchange Control Board of unstated millions of dollars. And now, does the minister in his estimate, supplementary or otherwise, have to say how much he can draw from the consolidated revenue fund in the form of unstated amounts for the use of the Foreign Exchange Control Board?

Hon. Mr. ABBOTT: I will have to inform myself on that. I will take that up with Mr. McIntyre, Comptroller of the Treasury. Like Mr. Hazen I am not conversant with what the constitutional position or the law is with respect to that particular question and whether we have to have specific authority or whether there can be statutory provision as is proposed by this bill. I cannot say as to that without informing myself. I think perhaps it would have time if the committee will allow me to do that and give the committee the answer tomorrow.

Mr. JACKMAN: Involved in that arises the question as to whether or not there should be any consideration as to the amount of any particular currency

held by the fund. I think Mr. Fulton brought that up. The answer is there could not be any restriction as to the amount of any particular currency. The fund has so much capital to work on. It is not unlimited capital as we understand it, the Minister of Finance to the contrary. It is a certain amount of capital and the board can invest that capital in one currency or another as it sees fit according to the tenor of the times. Isn't that so, Mr. Rasminsky?

The WITNESS: The capital resources of the fund apart from any original resources of reserve funds within the exchange fund will consist of advances which the minister may make from time to time. As to the ways in which these resources of the fund may be invested, those are set out in section 5, subsection 2.

Mr. JACKMAN: Just in regard to the general position of the government on the board, the board is not as independent as the Bank of Canada of the government; or, does the government run the Bank of Canada in all respects, dictate policy to it? I was rather under the impression that the bank, while ultimately probably subject to the control of the treasury, carried out its operations pretty well under its own administration of policy. Am I incorrect in that? Is the bank just a servant of the government? It is a separate corporation and does not report the same as other corporations do. Mr. Tower's report to the minister is not "your humble servant" the way most of the departments put it. It is on a quite different level. I wonder if you would straighten us out on that and tell us whether or not the board is the same as the bank, or exactly what its relation to the government is.

Mr. JACKMAN: In the same way as the Bank of Canada?

Hon. Mr. ABBOTT: I can answer that. Section 4 of the Act points out clearly that the board is directly responsible to the minister and subject to his direction as to matters of policy. It is an administrative branch of the Ministry of Finance. That is what the Foreign Exchange Control Board is.

Hon. Mr. ABBOTT: No. The Bank of Canada is not in that position. I am not sufficiently familiar to tell the committee just what the relation is between the Bank of Canada and the government; but the Bank of Canada, as you pointed out Mr. Jackman, is a separate corporation governed by the Bank of Canada Act. I suppose the answer to that, could be obtained either from the governor of the Bank of Canada, or in the Act.

Mr. JACKMAN: This savours more of government than does the bank itself.

Hon. Mr. ABBOTT: I would think so.

Mr. JACKMAN: I am just curious; that is all.

Mr. QUELCH: Before we leave that, Mr. Chairman, there is one question I should like to ask. During the war the Bank of Canada was relieved of the responsibility of maintaining a minimum reserve ratio of gold or foreign exchange to discharge its liabilities. Will that be closed from now on in connection with this Act?

The WITNESS: Section 71 of this bill, subsection (2), provides as follows:—

Notwithstanding anything contained in section 26 of the Bank of Canada Act, the Bank of Canada shall not, unless the Governor in Council otherwise provides, be required to maintain a minimum or fixed reserve ratio of gold or foreign exchange to its liabilities.

The CHAIRMAN: We now come to Foreign Exchange Control Board, constitution and administration—section 10.

*By Mr. Fleming:*

Q. There is no change in the constitution of the existing board contemplated here?—A. There is no major change. I was going to ask the chairman whether he would like me to summarize the main features of this section, as I did with the others.

The CHAIRMAN: I think it would be well to cover sections 10 to 17.

The WITNESS: Yes. Sections 10 to 17 provide for the administrative organization of exchange control. Section 10 establishes the Foreign Exchange Control Board which by section 72 is made the successor of the present board with authority, under the control and direction of the Minister of Finance, to manage and operate the exchange fund account. Section 11 names the members of the board.

*By Mr. Stewart:*

Q. Could you tell us, Mr. Rasminsky, what offices of the board now exist? In what parts of Canada do offices of the Board now exist?

Mr. FLEMING: Would it not be better, Mr. Chairman, to let Mr. Rasminsky complete this review and come back to the questioning later?

Mr. STEWART: I thought we were going to do it section by section.

Hon. Mr. ABBOTT: I understood we were doing it in groups of sections.

The CHAIRMAN: I suggested that we cover sections 10 to 17 inclusive.

Mr. STEWART: Oh, I see. That is all right.

The WITNESS: Section 12 requires the Bank of Canada as fiscal agent for the government to act without charge as technical adviser, agent and banker of the board and to provide the board without charge with staff, premises, office supplies and equipment required by the board.

Section 14—and I think it will be a little clearer if I change the order of the sections a bit—appoints the Bank of Canada and the Canadian offices and branches of the chartered banks as authorized dealers to deal in foreign exchange and act on behalf of the board.

Section 17 authorizes payment out of the exchange fund account of such remuneration to the authorized dealers as the Governor in Council may prescribe. At present that remuneration is fixed by the board with the approval of the Minister of Finance.

Going back, section 15 appoints customs officers agents of the board to control exports and imports for the purposes of the Act and appoints postmasters agents to control exports and imports and to issue money orders payable in foreign currencies.

Section 13 requires that the cost of administration of the Act, with the exception of expenses borne by the Bank of Canada and the remuneration of authorized dealers, shall be paid out of moneys provided by parliament. At the present time all the expenses of the administration of exchange control are covered out of the exchange fund and that provision provides an annual opportunity to parliament to review the operations of the board.

Section 16 authorizes the board to appoint other authorized dealers or agents to assist in the administration of the Act.

*By Mr. Fleming:*

Q. Mr. Chairman, I come back to my original question. Is there any provision made here for any change in the position or organization of the board, or is this in effect a continuation of the existing board in all respects without change?—A. You are referring to the position of the board?

Q. Yes, the personnel and administrative set-up.—A. Yes. subsection (1) of section 11 designates by title the members of the board who will be members of the board by virtue of the office that they hold. Subject to the possible possible appointment of alternates approved by the Minister of Finance, the members of the board will be Mr. Towers, Governor of the Bank of Canada, who will be chairman of the board; Dr. Clark, Deputy Minister of Finance; Mr. Robertson, Undersecretary of State for External Affairs; Mr. Mackenzie, Deputy

Minister of Trade and Commerce; Mr. Turnbull, Deputy Postmaster General; Mr. Sim, Deputy Minister of National Revenue for Customs and Excise. The changes from the present board are that Mr. Turnbull, Deputy Postmaster General is substituted for Mr. Beaulieu, former Director of Administrative Service, Post Office Department, who has now retired and that Mr. H. D. Scully, now Canadian Consul General in New York and formerly Commissioner of Customs, is dropped from the present board.

Q. Has he been functioning up to the present time?—A. He has been a member. He was originally appointed a member of the board when he was Commissioner of Customs. He is still a member of the board.

Q. But I suppose he has not actually been functioning?—A. In point of fact he has been able to attend only occasional board meetings since he took up his duties in New York.

The CHAIRMAN: Mr. Stewart, I believe you had a question.

*By Mr. Stewart:*

Q. Whereabouts in Canada are branch offices situated, or where will they be situated?—A. The head office, of course, is in Ottawa. There are branch offices in Vancouver, Toronto, Montreal and Windsor.

The CHAIRMAN: Are there any further questions?

*By Mr. Fleming:*

Q. Under section 17, what is the scale of remuneration paid to the authorized dealers?—A. The details regarding the remuneration paid year by year are given in the report of the Foreign Exchange Control Board which has been tabled by the Minister of Finance. The actual scale of remuneration is that the banks are paid a commission of  $\frac{3}{32}$  of 1 per cent on all foreign exchange transactions which they enter into as agents of the board.

Q. Are there figures given to indicate what is represented in terms of total remuneration to the banks?—A. The figures are given at the end of the report of the Foreign Exchange Control Board, year by year.

Mr. JACKMAN: Prior to the cutting of rates—

*By Mr. Fleming:*

Q. That is just one year. I beg your pardon.

*By Mr. Jackman:*

Q. Prior to the cutting of the rate in half, it was formerly just 1 per cent and now is one-half; how much was allowed to the bank under the old rate?—A. Some time before the spread between the board's buying and selling rate was cut to a half, the remuneration paid to the banks was reduced from  $\frac{1}{8}$  of 1 per cent to  $\frac{3}{32}$  of 1 per cent.

Q. Did it remain the same when the rate was cut in two?—A. I beg your pardon; Mr. Tarr has corrected me; it was after. On November 1st, 1945, the commission was reduced from  $\frac{1}{8}$  of 1 per cent to  $\frac{3}{32}$  of 1 per cent. The board's spread between its buying and selling rate was reduced from 1 per cent to  $\frac{1}{2}$  of 1 per cent on October 15, 1945.

*By Mr. Macdonnell:*

Q. In connection with section 11, why is not the plan followed, as in the Bank of Canada, of having some directors in a business community? I would have thought, in some ways, that this board would have had more difficult decisions to make than would the Bank of Canada.—A. I should not think Mr. Macdonnell, that would be a practical scheme. The matters which come

to the attention of the board for decision are matters, in some cases, involving business affairs of individuals or corporations and considerations of the board's general policy.

Q. I am not suggesting that this board is going to deal with day to day details. I assume that this board here is not summoned to deal with the details you mentioned.—A. No, but with administrative policy within the broad framework of the exchange policy formulated by the government. It would have cases brought to its attention for the purpose of establishing general policy.

Q. Doesn't that happen every day in whatever business it may happen? For example, in the Bank of Canada, it does not seem to be any difficulty. After all, the affairs of companies come before banks and insurance companies, so why not before this board in which we are so much more interested than in anything else. It would add to efficiency. I suggest that in a matter which is of so much concern to the business community, if there is any difficulty, it would seem to be the sensible thing to do. I should think, that the decision to be made here might be just as important, perhaps even more so.

Hon. Mr. ABBOTT: This is more of a government board or agency, in the same way as are the Wheat Board or the Wartime Prices and Trade Board and some others. They are administrative boards, and it has been the practice to have them composed almost entirely of senior civil servants.

Mr. MACDONNELL: I realize that; but it seems to me that the government is playing a vastly increased part in our business. As we discussed this afternoon, here is a government board which is undertaking to do what was formerly left to the operation of the market.

Hon. Mr. ABBOTT: Not exactly; they do not fix the policy; they administer government policy.

Mr. MACDONNELL: I accept that correction. Nevertheless, I suggest that what the board does itself is very important because, after all, the government is not going to be reconsidering this from day to day, and I think, without pressing the point further, that the actions of this board are going to be very important; so if it is at all possible—I am throwing it out—I want to think about it a little more myself because it is a new thought to me. I would like to have it seriously considered because it seems to me that however subject we are to government officials,—no one thinks more highly of them than I do,—however able they are, it seems to me you will have different points of view brought in by people who are subject, so to speak, to the play of the market or to whatever aspect of it they may be engaged in from day to day. Mr. Rasminsky points out that just how these men are to be brought into this organization may be difficult. I do not suggest that they can take part in anything except in the broad questions of policy. It may be, when I know the whole story, I may be convinced that questions of policy here are not such that you could deal with them except at intervals, although I should think they would be.

Mr. STEWART: Is it not a fact that the members of the board administering the board have no other responsibility except that of administration? It is possible that a director of a bank, who is sitting on the board, might occasionally find himself in a rather embarrassing position. We have some sort of guarantee that the men on the board are completely impartial.

Mr. MACDONNELL: He might have that difficulty; and I do not think it would be easy to find the men concerned; but I do think that the board which has to control the export or import of capital is going to exercise some very very important discretions. It has not merely to prove the bona fides of transactions. I would not be making this suggestion at all if it did. But it

does seem to me, when we come to these capital sections, unless I am all wrong, that we are going to face the fact that this board has extraordinary important powers. I do not think that the business community fully realizes the importance of this. I wish they did realize it a little more.

Mr. JACKMAN: Is it not a fact, Mr. Chairman, that as the board is now constituted, it comes directly under the Bank of Canada and under the directors of that bank?

Hon. Mr. ABBOTT: It comes under the Minister of Finance, Mr. Jackman; it has nothing to do with the Bank of Canada.

The WITNESS: Except that the Bank of Canada is its banker.

Hon. Mr. ABBOTT: There is no legal tie between the board and the Bank of Canada. The board is directly responsible to the minister and it is not an agency of the Bank of Canada in any way.

Mr. MACDONNELL: Might I suggest, Mr. Chairman, perhaps this is a matter which might be set aside for the moment. I would like to think about it a little further.

Mr. JACKMAN: Well, the Bank of Canada directors undoubtedly have a great deal to do with the question of whether we have a cheap money policy or a dear money policy; and the inflow of funds of capital account and the regulation of securities which are bought to repay that capital inflow have a very direct effect on our money policy, whether we can maintain it cheap or otherwise. It seems to me that the two dove-tail and are almost better run concurrently than run separately.

The CHAIRMAN: Shall section 11 stand?

*By Mr. Rinfret:*

Q. Would you tell me exactly when it was that Mr. Turnbull replaced Mr. Beaulieu?—A. Mr. Turnbull has not replaced Mr. Beaulieu. The Act provides that the members of the board shall be the office holders named in section 11 subsection 1; and I was asked the question, what change this would make in the constitution of the present board. I pointed out that one change would be that Mr. Beaulieu who is now retired from the government service would be replaced by Mr. Turnbull. Of course under subsection 4 of section 11, "each member of the board may, with the approval of the minister, at any time and from time to time appoint an alternate to act in his place and stead and the alternate shall have the same powers, when so acting as the member." If the office holders do not provide a board which is satisfactory from every point of view, the provisions of subsection 4, might, with the approval of the minister, be used to alter the composition of the board.

Q. What was the position held by Mr. Beaulieu in the Post Office?—A. He was director of administration services.

Q. And Mr. Beaulieu replaced Mr. Fortier, who was chief inspector?—A. That is right, sir.

Q. And why should that change be made now? Has Mr. Fortier gone too?—A. Yes, Mr. Fortier has retired. Mr. Fortier retired and Mr. Beaulieu was appointed to succeed him, and Mr. Beaulieu has now retired.

Q. Who is taking his place?—A. As chief inspector?

Q. Yes.—A. I do not know. I take it this is drafted in this way because all of the office holders named in section 11, subsection (1), are the heads of the departments concerned.

Q. I know that in the original order there was an exception made in the case of the Post Office. Why should it be changed now?

Mr. JACKMAN: Mr. Scully was dropped, was he not?

Mr. RINFRET: Yes, he was, but in all cases the acting deputy minister was acting except in the case of the Post Office where there was a chief inspector. Was there a special reason?

Hon. Mr. ABBOTT: It is obviously desirable, as in the case of these other boards, that there should be a French-speaking member of the board.

Mr. RINFRET: That is my point.

Hon. Mr. ABBOTT: We realize that. It is probable that subsection (4) will be used for that purpose. Mr. Rasminsky, for instance, who is the head of the present board is alternate for Mr. Towers.

The WITNESS: That is right.

Hon. Mr. ABBOTT: And alternate chairman of the board. And I think we will have to take it for granted that that same procedure will have to be followed in order to provide a French-speaking member of the board.

Mr. RINFRET: I do not see why we should go out of our way, Mr. Chairman, to change the board as it is at present constituted and make it appear as if there would be no French-Canadian member.

Hon. Mr. ABBOTT: I think the board is presently constituted by the name of the individual, not by the office which he holds in the government, and it was felt obviously in enacting the statute that it is desirable to provide in the constitution of the board for the office which he holds in the government rather than to name the individual who may be holding that office to-day. The situation might be met in this case, in order to provide a French-speaking representative, by selecting an office which is at present filled by a French-speaking deputy, but I think it might be better, in order to get the right man, that we utilize subsection (4).

Mr. RINFRET: With that guarantee from the minister, it is all right.

Hon. Mr. ABBOTT: I have no hesitation at all in giving that assurance.

Mr. FLEMING: Is there any department in which the deputy minister is French at the present time?

Mr. RINFRET: Not at all—not one.

Mr. FLEMING: It can be only dealt with under that.

Hon. Mr. ABBOTT: Yes, under (4), unless you use some office.

The CHAIRMAN: Section 11 will stand and sections 10, 12, 13, 15, 16 and 17 will be carried.

Mr. HAZEN: Mr. Chairman, might I put myself on record? The purpose of this bill, as I understand it, is to stabilize exchange and have our foreign exchange resources used to the best advantage. Now, these, it seems to me, are commendable purposes. I am not a financial expert and I have no experience with international trade, and in the circumstances I am not in a position to make constructive suggestions that will further the objects that the financial advisers of the government have in view; but what strikes me about this bill is this, that it has been promoted and drafted by men whose minds are so centred on currency and on exchange that they have disregarded entirely the rights and liberties of the ordinary citizens of this country. I hold the view that the people of this country should have the right to do what they like with what they own provided they do not interfere with the rights of other people and provided, of course, they pay their taxes. This bill, if it becomes law, will deprive them of rights they previously enjoyed prior to the declaration of war. I would like to give one or two illustrations that I have in mind. If I have a relative or friend who is in dire need and is living outside of Canada—perhaps in Ireland, Great Britain or the United States—and whom I would like to help and who under ordinary circumstances I would be in a position to help,

I am not able to help that relative unless the board will give me permission to help him by sending money from Canada to wherever that person lives.

Take another instance. If I want to leave Canada and go to Ireland or Australia or any other country for the purpose of living there for an indefinite period I cannot take with me what belongs to me unless I get a permit from the board. I want to point out that this bill does not say when a permit will be granted or when it will be refused. By this bill we are not making a law that sets out when a permit will be granted or when a permit will be refused; but by this bill we place that power in the hands of this board or in the hands of the board that is being set up, and we allow them or authorize them to make a law in this country that perpetuates bureaucratic institutions in this country by that process, and I for one do not think that is right. We are the representatives of the constituencies from which we come and were elected to make the laws of this country; we were not elected to delegate our powers to a board of bureaucrats to make the laws for us or for the people who elected us as their representatives in parliament; and I regard it as most objectionable that we should give these powers to the board, and I also regard it as objectionable that the board has the power to say to me or to the people I represent that I cannot or they cannot send money to people in dire need outside of this country; that we are prevented, without their permission, from doing so and we cannot go outside of this country and take what belongs to us unless we get the permission of the board. Surely that is going pretty far. It seems to me that we are approving the wrong kind of legislation when we pass legislation of that nature. I am not trying to make any political issue out of this. There surely must be other members on this committee who feel a good deal the same way as I do about it. Surely we can stabilize exchange and use our foreign exchange resources to the best advantage in this country without legislation of that kind. Surely there must be some other way of doing what we want to do without interfering with what I regard as the liberties and privileges that we possessed prior to the war. I wanted to place myself on record about it, and that is what I want to say.

Hon. Mr. ABBOTT: I take it that you are offering comment on the general provisions of the bill.

Mr. HAZEN: I am speaking about the powers of the board.

Hon. Mr. ABBOTT: Part of your remarks are really directed to the principle of the bill itself. Part of your remarks are really directed to the principle of exchange control. The control that is exercised by the board is exercised in accordance with laid down government policy, and the board as such is the administrative agent of the government. As I said yesterday when we were discussing this matter, if you accept as a premise that control is to be exercised, in the very nature of things discretion must be given to someone in the exercise of that control, and the board is the instrument which the government proposes should be used for that purpose. So far as the sterling area is concerned, as you know the present policy of the government as administered by the board is that there is no restriction on the export of revenue or capital which may be made to that area.

Mr. HAZEN: That is the present policy.

Hon. Mr. ABBOTT: That is true. I appreciate that, but nevertheless that is the fact at the present time. The cardinal point is are we to have foreign exchange control, and that has been decided in principle by the House when it gave second reading to the bill. The rest, of course, is a question of method.

Mr. HAZEN: We should be astute enough to be able to have suitable foreign exchange control and we ought to have draftsmen who are capable of drafting a bill that would provide for the objects we have in view without interfering

with what I call the liberties of the ordinary citizens of this country, the liberties they possessed prior to the war and prior to the order in council coming into effect that dealt with foreign exchange control.

Hon. Mr. ABBOTT: Like yourself, I am anxious to see these controls relaxed, but the very word "control" itself implies interference with the freedom and liberty of the individual to do what he would like to do. That is an unfortunate consequence of control.

Mr. HAZEN: Should we not control by the laws we, as the representaives of the people, pass in the House of Commons, and not by placing authority in the hands of certain civil servants and letting them go ahead?

Hon. Mr. ABBOTT: This is not placing unrestricted authority in the hands of civil servants. The Act itself lays down a very clear policy with respect to imports and exports of goods, which is a very important field of exchange transactions. The real control is exercised with respect to capital transactions, and there I agree there is a very real measure of control, but it is in accordance with laid down government policy.

Mr. HAZEN: Under section 25 no person shall export any property from Canada except in accordance with a permit. Those are the very first words.

*By Mr. Stewart:*

Q. Can Mr. Rasminsky tell us if he knows of any case where a person who has left this country has been refused permission to take his savings with him?—A. There have been applications on the part of Canadians to have their status changed to that of a resident to that of a non-resident, and who have desired to export the whole of their property with them, which have been either refused or approved only in part by the Foreign Exchange Control Board.

Q. Were those large amounts which were involved?—A. Were there large amounts involved?

Q. Yes, in those cases where permission was refused.—A. The policy which is followed by the Foreign Exchange Control Board is to grant change of status readily from Canada to countries in the sterling area, since the result is to place additional Canadian dollars at the disposal of the sterling area. Change of status is granted from Canada to non-sterling area countries in the case of United States citizens resident in Canada who are returning to the United States for permanent residence and to other Canadian residents who have special reasons for moving from Canada such as a Canadian woman marrying an American resident, elderly persons with closer family ties in the United States than in Canada wishing to live with relatives in the United States and so on, and who do not wish to move to the United States merely for the purpose of exporting their capital there or for reasons of evading exchange control regulations or reasons of personal preference. In cases where change of status is granted the individual concerned is authorized to remove his capital from Canada. If the amount is substantial he is authorized to remove it over a certain period of time.

Q. And where permission was refused in certain cases was it because the board suspected there was an attempt to evade control?—A. In recent years there have not been a large number of cases where applications for change of status to non-residents has been refused.

Q. Would you care to answer it later?—A. No, because that would involve a search of the boards' files that I do not think I could undertake at the present time, but I think I am right in saying that there were cases in the early stages of exchange control of persons with substantial means who wished to leave Canada with their property and their applications were refused.

*By Mr. Macdonnell:*

Q. I was not quite clear as to part of your answer to Mr. Stewart. At one stage I thought you said categorically that Americans who had come here and made their life here for a time were allowed to go and take their property with them but as I listened to you further I gathered it was only in those certain cases where you approved the reasons for going?—A. No, any American who remained in Canada and who retained his American citizenship is given change of status and allowed to take the whole of his property with him if he wants to return to the United States. A Canadian marrying a United States citizen and going to live in the United States is given change of status.

*By Mr. Michaud:*

Q. Would a citizen of the United States who is a non-resident be at liberty to remove his investments in Canada?—A. Yes, he could take his securities physically out of Canada.

Q. The other day I happened to be discussing the case of a certain farmer who stated that he wanted to sell his farm and go to the United States and buy a farm there near a city where conditions were more favorable. Under present policies that would hardly be permitted? I am referring to the case of a Canadian who wanted to sell his farm and move to the United States because farming would be more profitable there in his view.—A. I would have to see the details of that case before being able to express an opinion.

Q. Is that board policy, that that is not permitted?—A. The Canadian who wished to sell a substantial amount of assets in Canada and remove to the United States?"

Q. Yes, wants to sell his farm for say \$10,000 or \$15,000 and go to the States and buy a farm there, can that be done?—A. For an amount of \$10,000 or \$15,000 if there were no other reason for going to the States, such as one of the family reasons that I have mentioned, under the policies as at present administered that application would probably be refused.

Mr. MICHAUD: Yes, that is what I thought.

*By Mr. Jackman:*

Q. What would be the case, let us say, of an elderly lady who had arthritis or some rheumatic condition and wanted to go to California to live with certain relatives while her near relatives remained here in Canada. Would she be allowed to take her capital with her?—A. If the application were put forward on the grounds of arthritis and on the grounds that the climate over there in the southern States was better for her health than the climate in Canada, the board would get medical advice; I mean, the *bona fides* of the application would be verified on medical grounds.

Q. It would be the same as during the war?—A. The application would be submitted to those who were qualified to judge, and if the board was informed that her health would benefit through a change in climate it would grant the change of status.

*By Mr. Hazen:*

Q. If the farmer to whom Mr. Michaud referred sold his farm and went to the United States immigration authorities and got permission to go to the United States and didn't take the \$10,000 or \$15,000 with him, but left it in Canada, you would not stop him from going?—A. No sir.

Q. So long as he didn't take his money it would be all right for him to go.—A. That is right, sir; that is all the board controls, the movement of property.

*By Mr. Michaud:*

Q. How long would it be before he could take his capital over to the States?—A. You mean, by this means?

Q. How long would he have to be resident in the States before he would be in a position to have his money transferred over there to him?

Mr. FLEMING: Until you repeal this Act.

The WITNESS: Do you mean before he can make a further application to the Foreign Exchange Control Board?

Mr. MICHAUD: Yes.

The WITNESS: I really could not answer that. We would continue to regard him as a resident of Canada for Foreign Exchange Control purposes until we approved a change of status. It might be that after a period of time the policy would change or the fact would be recognized, that the man had become a United States citizen. But I am afraid I cannot answer a hypothetical question.

*By Mr. Hazen:*

Q. Suppose the farmer to whom Mr. Michaud referred sold his farm to a citizen of the United States and that man wanted to come up here and bring say \$25,000 and he satisfied our immigration requirements, would you have any objection to his coming and bringing his money with him?—A. You mean, the American bringing his money in with him?

Q. Yes.—A. No sir.

*By Mr. Michaud:*

Q. Then the case of this Canadian who sold his farm to the American who came across here and stayed in this country what happens?—A. That is a compensating transaction, an offsetting transaction, but a transfer of that kind would not be regarded by the board as a reason for changing its policy.

Mr. STEWART: Is the situation the same with respect to a citizen of the United Kingdom who comes to Canada, staying here for some time, is not satisfied and goes to the United States to live?

The WITNESS: I think it is very much the same. It certainly is no less restrictive.

The CHAIRMAN: Shall we go on to the next part of the bill, rates of exchange?

*By Mr. Jackman:*

Q. May I just ask Mr. Rasminsky this question: it has been said that if we are to have active control of exchange we must have the whole hog or nothing, but is it likely that cases such as Mr. Michaud brought up and Mr. Hazen would amount to sufficiently large sums that they would be really important to the fund? Could we not except cases like that and allow them transfer where they remove their person and obviously intend to change their domicile?—A. Yes, I think we could, Mr. Jackman; and it is a fact that there has been a progressive relaxation in the administration of these change of status applications. A considerable number of applications for change of status are approved by the board and I would expect that that policy would be continued and that cases such as those mentioned by Mr. Michaud would be approved.

Q. Can you see any strong reason why we should not give it legislative power instead of leaving it in a discretionary point with the board?

The CHAIRMAN: Just how would you do that, Mr. Jackman? Ever since Mr. Hazen raised the point I have been thinking it over. Don't you think that

the fact that the Canadian parliament has the right to amend this Act at any time leaves the House with full power. We are not giving any power to do anything except to behave properly. Just the minute they misbehave and make mistakes we have the right in our hands to correct that by amendment to the bill.

Mr. JACKMAN: It may be that we wish to attract certain people to Canada, not necessarily Americans but let us say people from Europe—Great Britain; and then they wish to reside here indefinitely but they may subsequently change their minds and wish to go back to the United States, for let us say climatic reasons or others, and if they see this bill in the form in which we have it without any rights other than simple permissive discretion of the board, it may alter the situation entirely. I cannot see why we cannot give consideration to putting it into legislative form, that a person who is a Canadian and seeks to change his domicile should not be able to take the means whereby he or she is going to live. It is much better to do it now. It is a reasonable request and it is not going to interfere seriously with the operation of the bill.

Hon. Mr. ABBOTT: Would your suggestion under those circumstances Mr. Jackman, be to put a top monetary limit on the amount of capital which such an individual might export?

Mr. JACKMAN: Well, the \$15,000 might be adequate for a farmer but there are people to whom \$15,000 would represent but a small proportion of their means.

Hon. Mr. ABBOTT: I was not discussing a figure. I said, would you be in favour of putting a top limit on the amount of capital each individual could export; and I take it we should not differentiate between individuals, certainly not between groups such as farmers and stock brokers.

Mr. JACKMAN: Half a loaf is better than none.

Mr. QUELCH: I wonder if Mr. Jackman would raise his voice a little bit.

Mr. JACKMAN: Well, I will raise it in your direction now, if you like.

Mr. BLACKMORE: I wish Mr. Jackman would take a seat down this way so we could hear what he says.

Mr. JACKMAN: I said to the minister, half a loaf is better than no bread in that regard, but the interpretation of residents is extraordinarily severe. A man may remove himself from Canada but he cannot change his status even though exchange is involved so far as this board is concerned and the control that it has over his assets. But, as I said, what may be a substantial amount to one man may not be nearly enough to maintain another man in the standard of life to which he is accustomed in the place in which he is going to reside. I think we might very well give serious consideration to an amendment there whereby people are not virtually imprisoned now that the emergency is over, the great emergency of war.

Mr. QUELCH: Is it not likely or is it not practically certain that the Board will only exercise these controls to the extent that they think is absolutely essential in order to protect the Canadian economy? I do not see why we should try to hamper their movements. We surely can trust them that they will only put these controls on to the least extent possible.

The CHAIRMAN: I agree with that. If the board ever starts acting too arbitrarily, we have the power to change that and to amend the Act.

Mr. JACKMAN: We have already had evidence from the witness that the board has refused applications and during the war period I think there was perhaps a very good reason for refusing them.

Mr. QUELCH: To conserve American dollars.

Mr. JACKMAN: But even when they were inundated with American dollars they still refused. It is still very difficult for them to exercise what I would term invidious discretion, granting certain people a certain amount and to other people none at all.

Mr. BLACKMORE: The thing that impresses me regarding a good many of the people who are finding so much fault with this thing is that they never saw fit to find fault with Bretton Woods which really brought us into the position in which this thing became necessary. That is one of the amusing things to me.

The CHAIRMAN: You must be getting quite a lot of joy out of this enquiry, then.

Mr. BLACKMORE: Surely. It is a wonderful thing to me, to see certain members beginning to learn what they did last year when they so blindly supported Bretton Woods.

The CHAIRMAN: Now that we are all in good humour, shall section 18 carry?

Mr. JACKMAN: Well, are we going to give consideration to an amendment there or not?

Hon. Mr. ABBOTT: I am afraid not, Mr. Jackman. I think we must take the stand that, if we are operating a foreign exchange control system we must give the necessary discretion to the government working through the board to exercise that control. As Mr. Quelch has said, I think we must assume that when it is possible to relax the controls, it will be done. As some one pointed out a moment ago, each year parliament is going to have to vote the administrative accounts of this board, and that is going to afford an annual opportunity for any member of the House who feels that the board is acting too arbitrarily or in an unreasonable fashion, to get up and make his protest, bring it to the attention of the Canadian people and urge that the Act be amended or the board's functions be removed. Frankly, I do not think there is any serious danger of abuse; and I think that in order to have the thing work smoothly and efficiently, these discretions must be given. If I might just continue, may I say that it has been my experience before I occupied the position that I do now, that this board and this particular control has functioned with as little criticism as any of the wartime controls. That was my experience in the business community. I think we may safely take it for granted that will continue. But I do feel on the question of principle that if we are establishing a control, we must give discretion. It seems to me it is essential. If I may just complete that, to put in here that exports of capital to the extent of \$10,000, \$15,000, \$20,000 or \$25,000 be allowed to an individual who changes his residence is, I think, imposing an unnecessary restriction on the operations of the board and would do very little good. In addition, I do not believe it would help very much the people you have in mind, Mr. Jackman.

Mr. MACDONNELL: Mr. Chairman, the minister surprises me in one way, because I thought we would all be in agreement here that we wanted to set as many people as possible free from restrictions of this kind. I really believe the minister would agree with that.

Hon. Mr. ABBOTT: I agree with that.

Mr. MACDONNELL: To me one question which is very important is whether we are perhaps making heavy weather about parts of this. For example, I was rather struck with what Mr. Rasminsky said to-night as to apparently the rather small number of requests. I do not know the number and the amount involved. Suppose his guess was that the total amount that would be involved in this in any year would be \$10,000,000, \$20,000,000, \$30,000,000 or \$40,000,000,

something not running into a big amount. I, for one, would very strenuously argue that a good many of these minor controls might be left out altogether. When we come to the larger question of the limitation of exports and imports of capital, I do certainly want to know a good deal more than I know now as to what the real quantities involved are, and what it is that we are really guarding ourselves against; because frankly, one of the things that bothers me most, holding the views that I do, is this; and here I disagree completely with the chairman that if we just leave this thing with the board, the board will exercise that discretion. I think the board exercised its discretion extremely well, but one of the things that I feel is that every year this thing stays on the statute books it becomes more and more a part of the landscape; and quite frankly I think that we may get so used to controls that we will lose what we are supposed to have been fighting for, or what most of us at any rate thought we were fighting for. I mean, the very fact that we have got used to the idea that we have got to have a permit for everything is something that quite frankly alarms me very much. I am alarmed by some of the people both inside parliament and outside who are acquiescing in it. In fact many of them—and I am speaking mainly of the people outside parliament now—I do not think have really a proper realization of the implications of what they are doing and what they are suffering. Therefore I, for one, feel that it is worth our while to be astute and to limit these controls as far as we reasonably can. I agree with the minister in this case, that to whatever extent we believe controls are necessary, we have got to rely on discretion.

Mr. BLACKMORE: Mr. Chairman, I should like to express appreciation of the manner in which the Foreign Exchange Control Board has exercised its great powers during the war. I have had some contact with them on several occasions and I never yet have seen them fail to be actuated by the most humanitarian motives and considerations. I think that we are perfectly safe in allowing them to have these powers, although I am just as much opposed to powers of this sort as anybody; yet I realize that the Foreign Exchange Control Board must be able to control and it must be able to protect the Canadian economy. To do that it must restrict migrations of capital even to this small extent. It must have that power. I say, once more, to my conservative friends, that when they voted for Bretton Woods, they voted for the necessity of just this very thing.

Mr. MACDONNELL: I think that Mr. Blackmore is overdoing his point a little, even though he is getting a great deal of pleasure out of it.

The CHAIRMAN: I thought you were overdoing your point, Mr. Macdonnell, a moment ago. Controls irk me just as they irk you.

Mr. BLACKMORE: We must protect our Canadian economy.

*By Mr. Stewart:*

Q. Can I refer to subsection 2 of section 18 for a moment.

“(2) Where the Governor in Council has not prescribed a rate of exchange between a currency and any other currency for any transactions or classes of transactions, the board may, by regulation, prescribe the manner in which and the terms and conditions on which the said currencies may be exchanged in such transactions or classes of transactions.”

Suppose a Canadian citizen wishes to send \$500, or the equivalent, to the American occupied zone in Germany, how would the board go about transferring the necessary Canadian dollars to the necessary currency? There is no such a thing as currency in Germany.—A. At the present time there are no banking channels; there are no facilities available for the transfer of funds to that zone either from Canada or from the United States.

Mr. STEWART: Thank you; that is all I wanted to know.

*By Mr. Jackman:*

Q. May I draw to the attention of the members an answer which was given by the witness a short time ago. The total of applications by people who might want to send remittances to Canadians in the United States, or who wish to remove funds to the United States, would not be so great as to interfere with the working of the fund. You did not envisage such a flood of applications or such a large amount involved that it would be of sufficient importance to interfere with the sound operation of the fund on behalf of Canada's general economy.—A. I think that is a correct statement in view of the situation as of the present time.

Q. The experience of people who left Canada with their money, as a rule, has not been good. We consider those who went to the Channel Islands and lost everything. Certain people went down to the Bahamas. Possibly the experience of those who have gone to the United States has been otherwise. But it is a simple freedom which we have always been used to and it is one which is not likely to be exercised in any great amount because it is difficult and disagreeable to detach oneself from one's native hearth. Nevertheless one likes to think there are no bars to doing so if one wants to. That is why I suggest we should give consideration to putting it in the statutes: that a person who changes his domicile should be free to take out, at least, up to a certain proportion.

Hon. Mr. ABBOTT: What limit would you suggest, Mr. Jackman? What limit do you feel would be appropriate?

Mr. JACKMAN: I should put the limit at as high a figure as Mr. Rasminsky or the board feel would be justified without interfering with the operation of the fund. It might be \$100,000, or \$15,000; I do not know.

Hon. Mr. ABBOTT: I would think that the amount might vary from year to year depending upon our position at the time; and that obviously would be unfair.

Mr. JACKMAN: What concerns me is that at the present time we have been inundated with American dollars. Certainly our situation has been very strong, yet permission has not been granted. Why, I do not know. Perhaps they feel that they want to keep the money themselves and not let individuals who live here and wish to remove themselves take it with them.

Mr. MACDONNELL: Surely nothing could be fairer than Mr. Jackman's statement when he says he is ready to leave it to the discretion of the board, to let them determine what amount might safely be let go.

Hon. Mr. ABBOTT: What they might determine to be safe to-day might not be safe two weeks from now.

Mr. MACDONNELL: They would have the resources of the dominion government behind them.

Hon. Mr. ABBOTT: But not in United States money.

Mr. JACKMAN: We could have a statutory amendment each year in the House.

The WITNESS: I would like to say that I think there is some misconception regarding Canada's exchange position. Mr. Jackman remarked that Canada was inundated with United States dollars. I am afraid he may feel that Canada has enriched herself as a result of the war, and that Canada has accumulated huge reserves of United States dollars which put this country on easy street. As far as her United States dollars are concerned, that, of course, is not the case. Canada at the present time has very large liquid reserves of United States dollars; but those reserves have been acquired as a result, exclusively, of the acquisition of Canadian securities by foreigners and the sale of foreign securities by Canadians. Canada has not acquired those reserves as the

result of any surplus in her current account transactions with the United States dollar areas. So I think we would be making a very serious mistake if we start consideration of our exchange problem from the point of view that Canada is frightfully flush. Actually, we have a lot of cash, but we have not on balance improved our over-all United States dollar position.

On the specific question of the policy of the board *re* the change of status and the possibility of inserting in the legislation a mandatory amount, I think that it has to be borne in mind that, for a number of years, the government found it necessary to carry out a quite restrictive travel policy. Until 1944, no United States funds, were sold for pleasure travel in the United States. From 1944 until 1945 they were sold in only restricted amounts, namely, \$75 every six months, for pleasure travel. But since May 1945 the situation as regards travel restriction has been that there are virtually no restrictions on the travel; but the banks have been given a limited authority to sell United States funds. During the period when there were restrictions on the use of United States funds for pleasure travel in the United States, it would obviously have been absurd to have allowed anyone to have automatically up to any given level of United States funds merely by virtue of going into the United States. That method of change of status could have been used as a direct circumvention of the travel restrictions.

Now, the question arose and I think it is a fair question, whether the board's policy *re* the change of status has kept pace with the changed policy *re* travel in the United States. The policy regarding change of status has, in point of fact, met the case of the large majority of individuals who have applied to the board.

The board, in point of fact, refuses very few applications for change of status. Now, I am not prepared to maintain here that the figures at which we are operating at the present time are necessarily the right figures; it may be the case that those figures should be increased. I indicated in reply to a previous question that I expected that the tendency would be towards further relaxation in the policy regarding change of status.

There is difficulty, as I see it, in inscribing any given limit in legislation. In fact, I see a number of difficulties to-day. First of all, there is the difficulty of border line cases. You may put a limit of \$25,000 in your legislation. Then, anyone who wanted to change his status from that of a resident to a non-resident, whose total assets amounted to \$25,000, would be entitled to do so, and you would direct the board to grant an approval of that application. But along comes some one whose total assets are \$25,500, who is not covered by the legislation. How does the board deal with an application of that sort? Is it fair to say that the man who has only \$24,000 can get the whole of his property out, whereas the man who has \$25,500 can get nothing out because he does not fall within the limit set by the legislation? Obviously, at that point you leave it to the discretion of the board, not to have a sharp cut off. That means that the limit is pushed higher and higher.

Another comment that I would make upon the insertion of the statutory limit is that by so doing you provide the possibility for anyone to acquire that amount of foreign exchange for any purpose, not only for the purpose for which you wish to make this provision. For example, a change of status may mean that if anyone wants to acquire exchange for a purpose for which you do not wish to make such a provision, it is perfectly open for him, legally, to take advantage of such a change of status and then acquire foreign security. Then another comment I would have to make on it is that—

*By Mr. Macdonnell:*

Q. May I interrupt you there. Do I understand that you are contemplating in this case that a man does make a bona fide transfer and does in fact go abroad?—A. Then he might return with his foreign securities.

Mr. JACKMAN: Wash it all out.

The WITNESS: Do what? There is no power to vest the securities.

Mr. JACKMAN: Once he becomes a Canadian resident, as a matter of fact there is power to vest.

Hon. Mr. ABBOTT: No, there is no power to vest.

Mr. JACKMAN: If the Canadian has any assets at all, in an emergency the assets belong to the country. We all know that. It is a necessity.

Hon. Mr. ABBOTT: Not until there was some statute.

Mr. JACKMAN: We are not in a period of great emergency now that the war is over, surely.

Mr. MACDONNELL: I do not want to seem doctrinaire, but one of the things that concern me most is that there is no provision for even beginning to work this out. I would attach great importance to it if I could see the beginning.

The WITNESS: Mr. Macdonnell, I would be glad to provide for the information of the committee—it may be too late to-night for me to do the whole thing—but I shall be very glad to provide for the information of the committee a review of the various relaxations which have already taken place in the administration of foreign exchange and control. In face, they are set out in this pamphlet.

*By Mr. Macdonnell:*

Q. To show you how far I go in my confidence in the board I would be perfectly prepared to say that the board can from time to time determine the amount and let it be known so that in that case—in the case which the board says is safe; let us say it is \$15,000 or \$20,000 or \$25,000—in that case the man who bona fide changes his residence does not have to go through the business of permits and we will begin to get back to the place where we live our own lives. I realize the necessity for control, but I am still hoping that we will be able in this bill to have an opening wedge, even if it is ever so narrow, of a return to carrying on our own business. Some of the people I respect very much, like the witness we have here to-night, but I think to a great extent they do not realize that they regard most of us as no longer capable of carrying on our own business. I am not saying that critically. I think it has arisen. I believe you naturally think it is a great risk, and that we have to be protected from ourselves and want us gradually to get back to the status of being *compos mentis* again.

Mr. QUELCH: A lot of people in Canada are beginning to think that too, and perhaps rightly so.

The WITNESS: Mr. Macdonnell I do not want to contradict you but I cannot let your statement of my attitude go without comment. I cannot accept that as a correct statement of my attitude.

I am not sure that I quite understood you, but if I understood you correctly you said that you are willing to fix any limit so that a permit will not be necessary?

Mr. MACDONNELL: As a start toward normalcy.

The WITNESS: Think of the thing in terms of what actually happens. Let us assume that we fix a limit of \$25,000. Would you say that anyone who has assets of less than \$25,000 can take the assets out of the country?

The CHAIRMAN: Or \$25,000 of his assets.

The WITNESS: Or \$25,000 of his assets, without a permit? Now, who determines; how do you determine how much of his assets are being taken out of the country or how many assets the man has?

The CHAIRMAN: You do not have to determine how many he has, if you permit him to withdraw up to \$25,000 of his assets.

Mr. MACDONNELL: I think Mr. Rasminsky has something there.

The WITNESS: Someone has to say that he has got only \$25,000 and therefore he does not fall under control.

Hon. Mr. ABBOTT: You are drawing this too fine. A millionaire could go out of Canada and could be a resident in New York and be allowed to take capital to the extent of \$25,000, leaving the balance of his capital here. You could provide that.

The WITNESS: Yes, you could, but what I say is that you cannot provide that without determining that it is \$25,000 that he is taking with him and saying that he can take this \$25,000.

Mr. MACDONNELL: Let me say two things. You can determine that better than I can. Occasionally you will be cheated, but after all I do not know who would do it. My suggestion would be that the banker would have to do it. Someone has got to assume the responsibility of knowing that that man did not make a bona fide change of residence, but the number of people who are going to cheat you is not great. As to the method to be employed, I am not going to get involved in that because you can determine that better than I can.

The WITNESS: The only point I am going to make, and I think it is important from your point of view, is that the incorporation into this legislation of a provision along the lines you have suggested will not dispense with the necessity of a permit.

Mr. JACKMAN: I think I might agree with that. We have some record of it.

Mr. MACDONNELL: Yes, someone has to have a record of it. It seems to me being able to do it as of right is beginning along the right line.

The CHAIRMAN: Yes. Anyone who makes a bona fide change of his residence, who moves out of Canada, shall as a matter of right be entitled to a permit to export so many thousand dollars.

Mr. MACDONNELL: I do not want you to think I have a bee in my bonnet, but this business "as of right" is of importance, and it is hard for you, having had control of this thing for six or seven years and having done extremely well, to feel that we should control ourselves. From my viewpoint I regard it as making a beginning.

The WITNESS: Mr. Macdonnell, since the beginning of exchange control Mr. Towers and Mr. Gordon and myself, who have been the people most responsible for the administration of exchange control, have been extremely conscious of the broad administrative powers vested in the Foreign Exchange Control Board; we have been conscious of the possibilities of misuse of those powers and the possibility of interfering with the liberties of Canadian citizens.

Mr. MACDONNELL: I believe every word you say.

The WITNESS: The whole of our effort, apart from doing what we could to safeguard the exchange position and to see that we get an efficient, business-like administration of the foreign exchange control, has been directed to making sure that the exchange control did not make any unwarranted or arbitrary use of those powers. I think I am entitled to say that a statement that I or the others who have been connected with the Foreign Exchange Control Board have enjoyed the exercise of power or want to retain the power because we are used to making the machine tick, and feel that it cannot tick without our help, is one I should not be expected to allow to pass without comment.

Mr. MACDONNELL: The last thing in the world I want to do is say anything that would wound you, and if I have I had no intention of doing so. I think what you have said now is perfectly true. Let me try to say again what I have in mind in such a way that you cannot possibly be wounded by it. You have for six or seven years been administering what I call a kind of controlled fairness.

I am sure you have tried to be fair. Nevertheless I make my point that I think it is difficult for you feeling that it is your duty to see that there must be fairness done as between all concerned, and frankly and with deference I say that it is awfully difficult for you to let things sort of run what you regard as a little wild because I suggest that almost subconsciously you must feel that is going to create inequalities. Probably it will create some but again I say I am very concerned that we should begin to return to where I hope we will return, to liberal ways with a small "l", and sometimes with a big "L" too, Mr. Minister. I am so concerned about it that I do feel that any beginning, however small, is worth while. Let me go back again and say that I am ready to submit myself completely to the board as to what they say is a fair figure that I want something to begin with as of right.

Mr. STEWART: Is it not a fact that what we want to do must of necessity be guided by conditions in the world around us? It has been said that the war is over. Actually the fighting is over but the world is still under some sort of compulsion economically, I would say. I cannot see a Liberal government introducing control powers such as this because it loves control powers. I think it is because it has got to do it because of economic conditions in the world. I am all for it. I think it is necessary, and I do not see for the life of me how we can avoid it for the sake of the Canadian economy as a whole. I think that circumstances as much at anything else have compelled the government to introduce the measure.

Mr. JACKMAN: Of course, the American economy does not find it necessary to have these controls whatsoever.

Mr. STEWART: It is a different economy altogether and it does have controls.

Mr. QUELCH: Tremendous gold reserves.

Hon. Mr. ABBOTT: I can assure the committee that the government takes no pleasure out of having to introduce this control measure, and I personally take no pleasure in having to pilot it through the committee. Like a good many others I am not in favor of controls as such. I am just as anxious as Mr. Macdonnell is to feel free if I had any capital to invest to go down and buy some stocks on the New York stock exchange or go down and live in Florida if I had the means, but we came to the conclusion—and I have said this before—that economic conditions are in such a shape, and our economy is in such a shape, we have got to continue this measure of control. As I understand it, all that Mr. Macdonnell wants in the bill is an indication, some little token, that we can carry on some form of foreign exchange transactions as of right without having to get a permit. As I understand it that is what you want.

Mr. JACKMAN: You have given a small token as of right when you allow the individual to take \$25 or \$50 across the border without a permit.

Hon. Mr. ABBOTT: That is by regulation. It is not by statute.

Mr. MACDONNELL: Actually after listening to Mr. Rasminsky tonight I am wondering whether the board might not on a review of the situation arrive at amounts somewhat larger than I, at any rate, might have expected. I am quite ready to leave it to the board. I believe that would be fair, but I should like to have the onus put on them to give every freedom that can be given.

Hon. Mr. ABBOTT: Mr. Chairman, we have had quite a little discussion on this question. Could section 19 be allowed to stand? We will consider that and discuss it with the officials of the board and see whether it might be possible to meet Mr. Macdonnell's suggestion.

The CHAIRMAN: We have ten minutes to go. I wonder if we could spend that ten minutes in having Mr. Rasminsky give us a brief resume of the points and places where controls have already been relaxed as to foreign exchange.

Mr. BLACKMORE: Before you go into that there is one matter I think we ought to get clear. I have listened to these gentlemen for some little time in their earnest contentions regarding the removal of controls. I am all in favour of living in a free economy but I should like to know what Mr. Macdonnell meant by a return to normal, by a return to the good old times. May I ask three or four questions so we can start on this next time? We have got to get an understanding of the whole thing. Otherwise we are going to have people going out of this chamber saying, "Oh, the Social Crediters were all in favour of a lot of these controls", and we certainly are not.

I should like to know just what they mean by a return to the good old times. The Foreign Exchange Control Board report shows us definitely that our Canadian economy has accumulated a deficit with regard to the United States of \$4,190,000,000. I want to know whether Mr. Macdonnell wants that to continue. Is that what he means? Does he want us to continue plunging into an adverse position like that indefinitely? Is that what he wants? That has been going on since the turn of the century. If he will just notice from 1926 to 1939 we had a persistent deficit with the United States. That again is in the report. Is that what he wants, a persistent recurring deficit in our trade relations with the United States? Is that what he is arguing for?

In 1920 we fell behind \$350,000,000 in our trade relations with the United States. Is that what he wants? Is that what he is asking for? Between 1910 and 1914 we fell into external debt to the extent of \$1,750,000,000. Is that what he wants?

I do not want to occupy the time of the committee but we have sat here for hours to-day and listened to this thing over and over again. Let us get an understanding of it so that we do not talk at cross purposes. I merely want to know whether these gentlemen want to see this country in a vulnerable position in which it will plunge progressively into debt to the United States on account of adverse trade balances both on current account and capital account. That is what I want to know.

Mr. JACKMAN: Export of capital hardly plunges this country into debt.

Mr. BLACKMORE: Export of capital has an important bearing on the matter. If hon. members have not got that into their minds they have not begun to get an understanding of this matter. All we have to do is read the report of the Foreign Exchange Control Board. As I said, I am against controls, too, but in my judgment we have got to call a halt in Canada. We have got to say that we have been plunged into debt to the United States through foreign trade both on current account and on capital transactions just as long as we can afford to keep on plunging, that the time has come to call a halt. I believe that is just exactly what was in the minds of the ministers when they made up their minds to bring in this measure. I think if we all understand that we will not have a whole lot of discussion.

The question is raised how long are we going to be able to go before we can do away with foreign exchange control? I would say that one of the very first things we have got to ask ourselves is how long is it going to be before we in Canada can be sure we are going to have a favourable trade balance on current account with the United States, and how long before we are sure we are going to have a favourable trade balance on capital transaction account? Until we can answer those two questions I do not see how in the world we can lay down any regulation at all concerning the length of time during which we shall have to use foreign exchange control. I thought I should like to say that to clear matters up a little. I do not want to be absolutely out of harmony with these gentlemen but it seems to me they just do not get the idea of what the whole thing is about. Thank you for the time I have taken. I think I have put my finger on the real crux of the situation.

*By the Chairman:*

Q. Would you care to take five minutes to indicate the manner and the points on which controls have been relaxed?—A. Some of the main ways are set out on page 28 of the Foreign Exchange Control Board Report.

The CHAIRMAN: It is five minutes to ten. Shall we adjourn until 4 o'clock to-morrow afternoon? I suppose to-morrow morning would be taken up with caucusses.

The committee adjourned at 9.55 p.m. to meet again on Wednesday, July 17, 1946, at 4 o'clock p.m.



SESSION 1946  
HOUSE OF COMMONS

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STANDING COMMITTEE  
ON

# BANKING AND COMMERCE

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BILL 195, FOREIGN EXCHANGE CONTROL

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

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WEDNESDAY, JULY 17, 1946

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WITNESS

Mr. L. Rasminsky, C.B.E., Chairman (Alternate), Foreign Exchange  
Control Board.

OTTAWA  
EDMOND CLOUTIER, B.A., L.Ph., C.M.G.,  
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY  
CONTROLLER OF STATIONERY  
1946



## MINUTES OF PROCEEDINGS

WEDNESDAY, July 17, 1946.

The Standing Committee on Banking and Commerce met at 4.00 p.m., the Chairman, Mr. Cleaver, presiding.

*Members present:* Messrs. Argue, Black (*Cumberland*), Blackmore, Cleaver, Fleming, Fulton, Gour, Hackett, Hazen, Irvine, Jackman, Jutras, LeSage, Macdonnell (*Muskoka-Ontario*), Marier, Mayhew, Quelch, Rinfret, Sinclair (*Ontario*).

*In attendance:* Mr. R. W. Mayhew, M.P., Parliamentary Assistant to the Minister of Finance, Mr. L. Rasminsky, C.B.E., Chairman (Alternate), and Mr. R. H. Tarr, Secretary, Foreign Exchange Control Board.

The Committee resumed consideration of Bill 195, An Act respecting the Control of the Acquisition and Disposition of Foreign Currency and the Control of Transactions involving Foreign Currency or Non-Residents.

Mr. Rasminsky continued his explanations of certain provisions of the Bill.

Clauses 19, 20, 21 and 22 were adopted.

At 6.00 p.m., the Committee adjourned until Thursday, July 18, at 4.00 p.m., with the understanding that the Committee would then proceed to the consideration of certain private bills.

R. ARSENAULT,  
*Clerk of the Committee.*



## MINUTES OF EVIDENCE

HOUSE OF COMMONS,

July 17, 1946.

The Standing Committee on Banking and Commerce met this day at 4 o'clock p.m. The Chairman, Mr. Hughes Cleaver, presided.

### **Louis Rasminsky, recalled.**

The CHAIRMAN: We are now on section 19 of the bill. I would suggest that we take 19, 20, 21 and 22.

Mr. MACDONNELL: I should like to make one or two comments. I will be very brief. It is with the idea of trying to indicate my willingness to cooperate realizing that our time is not unlimited. As we see it there are two or three things that are outstanding which the minister has agreed to consider. One is the question that the minister was going to inquire into raised by Mr. Jackman as to whether the amount to be taken from the unappropriated consolidated revenue fund was to be limited or not. The next matter which was outstanding, and which the minister was to consider with the experts, was the question that was raised last night as to whether there might be an amount to be determined which might be taken out as of right in the event of a change of residence. The third thing, and what I think is the most important of those we have mentioned, is with regard to the export or import of capital, and on that, apart from the other things, we are very anxious that if possible certain general principles governing procedure might be outlined so that the business community and the country at large can know what the governing principles are. In other words, it is not left entirely to discretion although we recognize that discretion is not going to be excluded entirely. Then I think the last thing I will mention for the purpose of completing the record is that we shall, as we have already indicated, be very interested in the duration of the bill. I think our feeling is it need not be for a long time. It would be much healthier if it could be reviewed from time to time.

I mention those matters just because I think that having them outlined may perhaps be useful in the planning of the work of the committee. I want to say that we recognize just as strongly as you do that we have other things to do besides this, and that we wish to cooperate.

The CHAIRMAN: That is very kind of you. There was just one point that you have raised where my recollection hardly agrees with yours. You suggested that the minister was going to take under consideration the point that perhaps there should be a ceiling on the amount of dollar transfers that could be made by the Minister of Finance under the authority given by the bill. My recollection is that point was raised and that the committee was rather distinctly told that the amount should be unlimited, but that the minister did give assurance that he would make inquiries and would advise the committee to what extent actual votes had to be voted in the House with respect to those transfers, if any. My recollection may be wrong on that point.

Mr. MACDONNELL: Maybe we are not so far apart. In any event, there is that point.

The CHAIRMAN: There is one other point you have not covered. I believe the minister intends to submit an amendment to the committee in regard to the publication of the reports if the House should not be sitting at the time they are brought down.

Mr. FLEMING: There was one other point that the minister was going to look into. That was this matter of the definition of property in relation to sections 25 and 26, because the present definition was broad enough to include real estate. The point was raised earlier and the minister said he would look into it.

The CHAIRMAN: It is very kind of you to outline the points that require to be covered.

Mr. QUELCH: I am not sure whether we covered this point, but did you say that the report of the Foreign Exchange Control Board would be referred to the banking committee every year that parliament sits during the session of parliament?

The CHAIRMAN: That matter was not discussed. If you would like that point to be considered along with the other points I will draw it to Mr. Abbott's attention.

Mr. HACKETT: Has anybody asked how much it has cost the Foreign Exchange Control Board to operate?

The CHAIRMAN: No.

Mr. HACKETT: If I should ask that question do you think I would get an answer?

The CHAIRMAN: Oh, yes.

The WITNESS: The answer is provided in the report of the Foreign Exchange Control Board which has been tabled in the House. On page 46 of that report you will find a fairly detailed statement of the general operating costs of the Foreign Exchange Control Board.

Mr. MAYHEW: I should like to make a brief statement. The minister may be here later on, but I doubt it very much. The Department of Finance is working on a pretty heavy program right now with the budget debate and this committee as well as some special work in connection with the office. We have divided up our forces today. He will probably not be here, but all the items that you have mentioned, Mr. Macdonnell, will be taken up with him and he will cover them when he does come later at our next meeting.

Mr. MACDONNELL: Perhaps I might just stress that one with regard to capital imports and exports. I am very conscious of the fact we have had quite a long time on general discussion, but I should like to make clear now that as far as I am concerned I still feel—and perhaps Mr. Rasminsky would take this into account—that in determining how tight and rigid a control of export and import of capital goods we should have it seems to me that in order to exercise our judgment on that we have to have some idea of the quantities involved, and the potential quantities involved, so far as they can be stated, so as to try to envisage the extent of the danger that we are trying to guard against by what, of course, from my point of view is always to be regarded as a control which is undesirable except to the extent that it is absolutely necessary to safeguard us against very real dangers.

The CHAIRMAN: With the reservations indicated by Mr. Macdonnell shall we carry on with section 19?

*By Mr. Hackett:*

Q. Just before you start that I may not have put my question in sufficient detail to have provoked the answer I wanted. I did not mean operating costs. I have assumed that there would be a certain expense, a certain gain or a certain

loss from the operations of the Foreign Exchange Control Board. It was the result of those operations that I was asking about.—A. I am sorry I misunderstood your question. In the Foreign Exchange Control Board report you will find starting on page 39 an annual statement year by year of the revenues and expenditures of the Foreign Exchange Control Board described as Minister of Finance Special Exchange Fund Account. Those statements show an excess of revenue over expenditure each year of operation, and the aggregate of the excess of revenues over expenditures amounts to \$49,321,652.92, and is included as the reserve fund in the statement of assets and liabilities of the Minister of Finance Special Exchange Fund Account as at December 31, 1945, which is given on page 45 of the report.

Q. Now will you please tell me what relationship, if any, exists between the amount that you have mentioned and the Bank of Canada? Probably my question is awkwardly put. Has the Bank of Canada any control over that amount of money?—A. No, sir. That amount of money constitutes part of the Minister of Finance Special Exchange Fund Account.

Q. Is the policy of the Foreign Exchange Control Board co-related in any way with the policy of the Bank of Canada?—A. The Bank of Canada acts as the board's banker and adviser. The accounts of the exchange fund are kept with the Bank of Canada and, as you know, the Governor of the Bank of Canada is chairman of the Foreign Exchange Control Board, but there is no formal connection other than what I have just indicated.

Q. To what extent is the board an arm or an aid of the bank itself?—A. To no extent. The board is directly responsible to the Minister of Finance. It reports directly to the Minister of Finance and receives instructions directly from the Minister of Finance and not through the intermediary of the Bank of Canada.

Q. Does that mean to the Governor General in Council?—A. No, sir. Under the provisions of the Foreign Exchange Control Order the board is responsible to the Minister of Finance. Under the provisions of this measure, section 4, the minister, who is the Minister of Finance—

Shall control and direct, for the purposes of this Act and subject to its provisions, the operation of the exchange fund account hereinafter mentioned and the Foreign Exchange Control Board hereinafter established.

This measure provides that certain actions of the board shall be ratified by the Governor in Council. For example, no regulation that the board may make shall be effective until it has been ratified by the Governor in Council and published in the Canada Gazette. Under this measure in section 18 it is the Governor in Council and not the Minister of Finance who is empowered to prescribe rates of exchange, but it is the Minister of Finance who is responsible for the operation of the Foreign Exchange Control Board.

*By the Chairman:*

Q. May I ask one or two questions to be sure that I understand correctly the summary of assets and liabilities as shown on page 45? Is the item of \$1,300,000,000, loan from dominion government, similar to the transfers which will now be made under section 7 of the bill?—A. Yes, sir.

Mr. JACKMAN: What did you ask?

The CHAIRMAN: I asked as to whether the item of \$1,300,000,000 represents the transfers that would now be made under section 7 of the bill. Then the item of reserve fund, \$49,000,000 odd, is actually the profits earned by the Foreign Exchange Control Board through their foreign exchange transactions?

The WITNESS: It is the excess of revenues over expenditures of the Foreign Exchange Control Board.

Mr. JACKMAN: Including the revaluation of gold.

The CHAIRMAN: No, I am coming to that.

*By the Chairman:*

Q. This is the item of \$83,876,000 referred to as capital the item that was acquired by the revaluation of gold?—A. Yes, sir. The item of \$83,876,000 referred to as capital is the original capital resources of the special exchange fund account which came about by the revaluation of the gold stock of the Bank of Canada.

Q. I have one further question. Of the assets which you carry under the heading "foreign exchange and short term securities", one billion odd, is there any part of that item as to which losses may accrue?—A. I take it you mean other than losses that would accrue through a change in the exchange rate?

Q. Other than losses that would accrue to gold.—A. No, sir. That item is entirely in the form of bank deposits or short term government securities.

*By Mr. Hazen:*

Q. I should like to ask a question of Mr. Rasminsky, although I hesitate to do so because it shows my ignorance of these matters. The net revenue we will take it for 1945-1946 as shown on page 44, from turnover on foreign exchange, is \$14,360,432.50. What does that mean? How did you make \$14,000,000 odd from turnover on foreign exchange? Just what does that mean?—A. That arises from the gross spread between the board's buying and selling rate for foreign exchange. The board buys American dollars for example, at a certain rate; in 1945 it bought American dollars at a rate of \$1.10 Canadian per American dollar. When the board sells American dollars it sells them at a higher price. In the course of 1945, until the month of October, the board sold American dollars at a price of \$1.11 Canadian. After October we sold American dollars at a price of \$1.10½ Canadian. So that up to October there was a gross spread of 1 cent Canadian per American dollar turned over. Since October there has been a gross spread of ½ cent Canadian per American dollar turned over.

Mr. HAZEN: You must have bought a tremendous amount of foreign exchange.

Mr. JACKMAN: He did.

Mr. HAZEN: In order to make a profit of \$14,000,000 odd.

The WITNESS: Yes, sir. It is a big business. The volume of transactions is indeed very large.

*By Mr. Quelch:*

Q. How do your charges compare with the charges that were made prior to the setting up of the Foreign Exchange Control Board?—A. So far as the public is concerned, do you mean?

Q. Yes.—A. I think that the charges that are now paid by the public are less in some cases. They would vary, Mr. Quelch, according to the size of the transactions. So far as the small transactions are concerned and transactions of moderate size—and I have in mind transactions that would run into anywhere up to a few thousand dollars—I think that the spread that the public pays now is probably less than the spread that the public paid before the establishment of exchange control.

*By Mr. Hackett:*

Q. Through their banks?—A. Yes, of course; through their banks. So far as the larger transactions are concerned—and I am thinking of transactions that run into hundreds of thousands of dollars or larger—I think it would prob-

ably be true to say that the spread of  $\frac{1}{2}$  of 1 cent is somewhat larger than was paid before the war at any given moment of time—that is, on the basis of one day's rates. On the other hand, in order to reduce as much as possible the incidence of that spread—and the spread arises, of course, only in the case of people who have transactions on both sides of the market—the board has authorized a very considerable number of companies and individuals who have both receipts and disbursements in foreign exchange to operate in their own name foreign exchange bank accounts. That enables them to pay directly into their accounts their receipts and to make their disbursements directly from their accounts without passing through the spread. Of course, the individuals or corporations who operate such accounts submit to the board regular periodic statements of their receipts and expenditures so that the board does not, by granting such permission, lose the scrutiny of the foreign exchange transactions.

Q. Has anybody asked you, Mr. Rasminsky, to explain the strength of the Canadian dollar in, let us say, the American market following the parity regulation of the 3rd or 4th of July?—A. No, sir. No one has asked me that question.

Q. Let me ask it, then. Will you tell us how it happened that our dollar became worth 10 cents more—or roughly that; it was not quite that—in New York overnight?—A. I did explain at some length, in reply to a question asked by Mr. Fleming the other day, what the nature of the unofficial market in New York is. I will pass over that explanation very quickly simply by remarking that the unofficial market is entirely a market between non-residents; that the transactions in the unofficial market consist of sales of Canadian dollars by one American who owns Canadian dollars to another American who has some use for Canadian dollars. The only explanation that I can offer of the relative strength of the Canadian dollar in the unofficial market in the course of the last 10 days or so is that after the change in the official rate there has been no large offering of Canadian dollars by non-residents. Non-residents, Americans, who own Canadian dollar balances have felt that the revaluation of the Canadian dollar has increased the value of those balances and have not been prepared to sell them at anything like the discount that previously prevailed. Americans owning Canadian securities which they have bought since the institution of exchange control and who were consequently entitled under Foreign Exchange Control Board rulings to resell those securities in Canada and take the proceeds out through the unofficial market have in point of fact, not sold on any appreciable scale. There has been no disposition or very little disposition evidently on the part of American investors in the course of the last 10 days or so to feel that their holdings of Canadian securities have ceased to be a desirable investment. On the whole they have retained their holdings of Canadian securities. You will also have noticed that the price of Canadian securities in the American market has gone up practically to the full extent of the appreciation of the Canadian dollar. I am referring now to the domestic pay securities.

*By Mr. Jackman:*

Q. You are referring to bonds, chiefly?—A. I am referring to bonds, yes; for example, Dominion of Canada bonds.

*By Mr. Hackett:*

Q. What has occurred to me, Mr. Rasminsky, is that our control here appears to have determined in a foreign market the value of our dollar. A control over there—I mean in the United States—over their money market, it would seem to me if it were exercised with any degree of hostility to Canada, might wreck our foreign exchange control almost overnight.—A. Apart from any likelihood of that happening, Mr. Hackett—

Q. Yes, I am conceding that it is unlikely.—A. I do not see how it could happen. It is perfectly true that economic conditions in the United States, the development of prices there and the attitude of the American investors towards Canadian securities and investment in Canada do have a very direct bearing on our exchange situation. Of course, it is in a sense as a precaution against undesirable developments of that sort that I believe this measure is designed. But I do not quite see what the analogy is that you are drawing between that and the strength of the unofficial dollar.

Mr. HACKETT: For 5 or 6 years, as a result of control here, our dollar has been worth 90 cents—speaking in rough terms—in New York. It seems to me if this force operates both ways, that control in the United States might very well make our dollar worth 50 cents, if there was a desire there or an end to be served by so doing.

*By Mr. Jackman:*

Q. Is it not a fact, Mr. Rasminsky, that your controls do eventually have to accord with economic fact, and you cannot keep the Canadian dollar at a 10 per cent premium or parity or 10 per cent discount unless that bears a reasonably close relationship with the purchasing power—I will not use the word “parity”—of the two currencies? In other words, if the Canadian dollar will purchase more than the American dollar, the tendency is for that dollar to go to a higher level. I should have thought that when the price ceilings broke in the United States the merchants over there, seeing cattle and grain and other commodities and manufactured goods in this country selling for much less than the new price, and then seeing that our dollar was worth 10 per cent less when they converted their American funds, would have simply swamped our market with orders. That was why I said that I thought the exchange fund must have inundated with American dollars just prior to the revaluation upwards of the Canadian dollar. Mr. Hackett has asked the question: Why do the Americans at one time keep the unofficial market around 10 per cent, which is in accord with the official market here; and then when the official market changes to parity, how does the Canadian dollar in the unofficial market accord with the new level? If one goes to enough difficulty one can get official dollars, particularly for trade, and you do not deal in the unofficial market. Certainly you would not pay 10 cents more for unofficial dollars than you would for official dollars. Is that not, broadly speaking, a picture of the facts? We must keep our dollar in reasonably close relationship with the American dollar with an equivalent purchasing power. Otherwise we have to vary our dollar up or down depending on the purchasing power of the dollar in the United States. Is that not so? Do I make clear what I am intending to convey?—A. Yes, you make it clear. My hesitation is as to whether in fact a reply to the question constitutes a comment on exchange rate policy which, as you know, I think it is inappropriate for me to make. I think I could safely go this far, Mr. Jackman, that the relationship between internal purchasing power of currencies is a matter that has a very important bearing on the appropriate rate of exchange.

Q. In other words, if the O.P.A. were to disappear entirely and not be reinstated in the United States, and the general price level went up 50 per cent, it would likely be impossible to keep our dollar at parity? It would go to a premium?—A. You are asking me to take a position in historical futures.

Q. Well, that would be an economic textbook definition of what would likely happen.

The CHAIRMAN: You would not care to express an opinion.

Mr. MACDONNELL: Put him in the diplomatic corps.

Mr. QUELCH: Whilst I agree entirely with what Mr. Jackman has said, theoretically, actually in practice it does not work out in that way; because we

could hardly say that the relationship between the price level in England and the price level in the United States has to be related to the exchange rate between the two countries or the value of the currencies. It is the values at which those currencies are held.

Mr. JACKMAN: Yes, it is.

Mr. QUELCH: The pound is below value considerably in relation to the American dollar, but the American price level is higher than the English price level, is it not?

The WITNESS: I think everyone will concede this, that in present circumstances when different countries have varying degrees of price control, varying degrees of efficiency of the administration of price control, varying wage rates and varying degrees of rationing, the normal methods by which one would judge the true relative internal purchasing powers of the different currencies are not applicable in the same degree as they would be in the absence of those abnormal phenomena that I have mentioned.

*By Mr. Jackman:*

Q. But if a bushel of wheat sells for \$1.50 in Chicago and sells for 87 cents in Winnipeg, and the American can exchange his dollar for a Canadian dollar, which means that the price in one country is \$1.50 and in the other country it is 87 cents, there is no question but that American funds will fly over here and buy all of our wheat or whatever other commodity may be offered for sale to as great an extent as they can possibly get it.—A. One must bear in mind that there are such things as import quotas in the United States.

Mr. JACKMAN: But there are many manufactured commodities of that description which the Americans could buy in Canada, or raw materials—our pulpwood, newsprint and all sorts of things—which they would buy in Canada in preference to buying in their own country if there is such a wide discrepancy in the prices which is not adjusted by exchange values. In other words, the greatest determinant, even to-day with all your controls, is the control surely of the relative price level in the two countries.

Mr. QUELCH: But on the other hand, the United States currency to-day, under the Bretton Woods agreement, is valued in terms of gold and not in terms of the price level. I would quite agree that it should be valued in terms of the price level; but we have signed the Bretton Woods agreement under which we have agreed that there should be so many grains of gold in the dollar.

Mr. JACKMAN: It is not a question of the value of a currency in gold. It is what you can do with the currency. If Americans can exchange American dollars for Canadian wheat at a low price level, they will buy Canadian wheat; or sterling will come over here if wheat is much cheaper, or whatever the commodity is, and they will buy it.

Mr. QUELCH: Provided that a tariff is not put up to stop the transaction, which has always been done in the past.

Mr. JACKMAN: Yes, if you do not put an embargo on it.

*By Mr. Hazen:*

Q. Might I ask a question about transactions in gold which brought in \$270,013.98 last year. Where do you buy your gold from? Is it from the mines or is it gold currency or what is it?—A. No. We get our gold from the mint, from the Minister of Finance.

Q. Do you get it in the form of gold coin?—A. No. We get it in the form of gold bars.

Q. In the form of gold bars?—A. Yes.

Q. You get it from the mint and the mint gets it from the mines, does it?—

A. Yes, that is right. The mint gets it from the mines. As I understand it, the mint refines the gold and then the exchange fund account buys the gold from the Minister of Finance. Your question is as to how this profit of \$270,000 odd arises.

Q. You sell it. Do you sell it also to the United States, practically all of it?

—A. No, sir, it is not all necessarily sold to the United States. With regard to the profit of \$270,000 which has been referred to, that arises in this way: the exchange fund account carries the gold on its books on the basis of the realizable value of the gold in New York after making an allowance for transportation charges and handling charges. The gold when sold in New York is sold for \$35 per fine ounce less a charge of  $\frac{1}{4}$  of 1 per cent, which is a charge which is levied on all gold transactions by an agency of the federal government. I do not remember at the moment whether it is the federal reserve or the assay office—I believe it is the assay office. Of course, it costs money to move gold from Ottawa to New York. We carry the gold on our books on the basis of the \$35 U.S. per fine ounce less handling charges, less the cost of transportation from Ottawa to New York. That is to say, we carry it at something less than \$35 U.S. an ounce. Now, occasional opportunities arise to sell gold to foreign countries or central banks at a price which while less than \$35 U.S. per fine ounce, is greater than the price at which we carry it on our books. Such opportunities arose in 1945 to the extent that we produced a profit of \$270,013 for the exchange fund.

*By the Chairman:*

Q. Mr. Rasminsky, I would like to go back to the question asked by Mr. Jackman a few moments ago, and I have a question I hesitate to ask, but if you feel free to give the answer I shall be glad to have it. In case the Minister of Finance or the government should decide to place the value of the Canadian dollar substantially higher than the value the dollar would carry on open market transactions, what would be the dangers that would be inherent upon such a move?—A. I take it that your question is that if on the basis of a price comparison the value of the Canadian dollar were at parity, let us say, with the American dollar and the Canadian government were to say or chose to say that the Canadian dollar is worth \$1.50 American—

Q. Yes.—A. —what would be the dangers inherent in such a move?

Q. Yes.—A. The main danger would be connected with the position of the export industries. The exporters' costs are incurred in terms of Canadian dollars. If their cost of producing a given article is, let us say, \$100 Canadian and the American cost of producing the same article is \$100 American, that being the true measure of the relative valuation of the two currencies, but the Canadian government for some reason wants to say that the Canadian dollar is worth \$1.50 American, the Canadian exporter trying to ship his commodity to the United States will be able to get only \$100 American for it, because he has to face the competition of American producers. That is true not only of the sales in the American market; it is also true of his sales in third markets. He gets \$100 American for the commodity and when he transfers this to Canadian funds he finds that all he gets is \$66 Canadian.

Mr. HACKETT: He makes a loss.

The WITNESS: He makes a loss on his transaction. Canada is therefore, not able to compete in export markets. The opposite takes place as regards importers; the importers find it is much cheaper to buy abroad to satisfy the demands of their customers. It is much cheaper to do that than to satisfy the demands of their customers by buying domestic production.

*By the Chairman:*

Q. You have referred to the trade branch, and I can understand that answer. Coming strictly to the Foreign Exchange Control Branch, what dangers would be inherent from the standpoint of loss and the like in the operations of our foreign exchange control?—A. Well, if the Canadian dollar were appreciated—

Q. Unreasonably.—A.—unreasonably there would, of course, be a very substantial book loss on the Foreign Exchange Control Board's inventory of foreign exchange. That would not be the most serious consequence that would fall. The most serious consequence I think would relate not to the transactions of the Foreign Exchange Control Board but it would relate to the effect on our import and export industries and to the balance of payments position of the country. If one were to do a thing of the sort you suggest and stick to it over a long period of time you would find, of course, that you were losing reserves all the time because your import balance would go up.

Q. As to both of these main features—A. Excuse me. I would like to add this, that just as an undervaluation of a currency is a wasting asset so the overvaluation of a currency is a wasting liability in a sense. Over a period of time domestic prices probably do tend, in some cases painfully—in the case of a drastic overvaluation of the sort you have in mind, very painfully indeed—they do tend to adjust themselves to the level of the exchange rate so that these consequences I have mentioned probably come to an end in the course of time.

*By Mr. Macdonnell:*

Q. Was the return to gold in 1925 in England a classic case of overvaluation and the consequent—A. It certainly is generally referred to as a classic case of overvaluation of the currency exercising deflationary pressures on an economy over a rather extended period of time.

*By Mr. Fleming:*

Q. This afternoon in the House Mr. McLure was given the answer to a question he had placed on the order paper. This is the question:—

At the time when the Canadian dollar was put on a parity basis, how many foreign exchange contracts were outstanding between the Foreign Exchange Control Board and Canadian exporters?

The answer given was:—

At the time of the recent change in the exchange rate of the Canadian dollar there were 963 forward exchange contracts outstanding between Canadian exporters and Canadian banks acting as authorized dealers of the Foreign Exchange Control Board.

I take it, Mr. Rasminsky, that any of these foreign exchange contracts would be with one of the authorized dealers on behalf of the board; it would never be with the board itself?—A. That is right, sir.

Q. Have you the total amount of these 963 contracts?—A. No, I think it is—

Q. Is that available?—A. Would it be available?

Q. Is it available?—A. Well, the figure exists.

Q. Is it a question of policy?—A. I could not disclose that figure on my own responsibility.

Mr. JACKMAN: What was the charge for forward contracts?

The WITNESS: Excuse me, Mr. Tarr reminds me that some days ago in reply to a question that I was asked regarding the extent of losses on F.E.C.B. exchange holdings through revaluation I think I gave the net amount of forward exchange contracts outstanding at that time which was substantially in excess of \$100,000,000. That is the amount that was outstanding as at the end of 1945.

*By Mr. Fleming:*

Q. And it was repaid by these 963?—A. No, sir.

Q. You do not give the figure as of the date of revaluation?—A. No.

Mr. MACDONNELL: Could we take it that it would run along fairly on the level—that that figure would likely be a typical figure. I am not trying to be clever at all.

The CHAIRMAN: You are not trying to creep up on him?

Mr. MACDONNELL: No, I am not. It is important in trying to arrive at the matter asked about a little while ago. I am not pressing it now, but it does seem to me that it cannot be very injurious for us to get an idea of our total foreign business. That is really what we are asking.

The WITNESS: No, sir, I am bound by the provisions of the Exchange Fund Act which say that no one but the Minister of Finance shall make disclosures.

Mr. FLEMING: To prevent spending further time on the matter now, the minister and Mr. Rasminsky could confer on it and let us know whether they are prepared to give an answer.

The CHAIRMAN: I should think there would be a grave doubt whether they would be prepared to answer on current transactions, but if it would satisfy Mr. Macdonnell to have previous transactions going back over periods three months apart, and have a look at that—

Mr. MACDONNELL: Quite. I want to get an idea.

The CHAIRMAN: There would be no objection to that, would there, Mr. Rasminsky?

The WITNESS: I do not know whether it would give Mr. Macdonnell the information he wants.

Mr. MACDONNELL: I think so; anything you can give. Supposing that that happened to be a very untypical figure; suppose the \$1,000,000 were \$500,000,000?

The WITNESS: No, sir. If you want an answer in general terms, as general as that, I am prepared to say that the figure of exchange contracts—both the figure of exchange contracts outstanding at the end of 1945 and at the time of the recent valuation were not untypical figures; there was nothing unusual.

Mr. MACDONNELL: That is all I want.

Mr. JACKMAN: Do you think the board will be able to tell the people of Canada how much was lost at the time of revaluation on July 5?

Mr. LESAGE: Do you mean book loss?

Mr. JACKMAN: On the books of the Foreign Exchange Control Board. The kind of losses we have now.

Mr. LESAGE: If I understand correctly the loss is only a book loss.

Mr. FULTON: They bought American dollars at a 10 cent premium and now they are at par.

Mr. MAYHEW: That will be reflected in the Foreign Exchange Control Board's statement.

*By Mr. Jackman:*

Q. The public will not know how much was lost.—A. It will be for the minister to decide when to disclose the figures of the exchange fund position as of July 5, 1946.

Q. As I understand it, the reason you have this strict secrecy about the figures is that it might allow speculators—although you would not be able to tell us how speculators could affect—A. I tried to tell you two or three times; I am sorry I was not convincing.

Q. I understood that the regulations of this proposed bill were sufficient to prevent any great speculation. However, the question I am asking is this: I understand that the reason for this great secrecy is that if the knowledge were available it might be used against the interests of the board. How long an interval, from a technical point of view, not from a ministerial point of view or any other point of view—how long a period should elapse before a statement could be given which could not allow speculative activities to interfere with the carrying on of the board's operations?—A. Mr. Jackman, I do not know whether you have requested that information of the minister and the minister has refused?

Q. No.—A. I suggest that it is to the minister that the request should be directed if you want that information.

*By Mr. Macdonnell:*

Q. I am in the same difficulty as Mr. Lesage. I would like to understand exactly what we mean when we say that this was only a book loss? Would I be correct in saying this, that from the point of view of the purchasing power of those assets in the United States nothing that happened on the 5th of July changed their value but, on the other hand, they acquired an entirely different value in Canadian terms of Canadian dollars, whatever the amount is—a substantial amount; is that a true explanation of the situation? Is that what you mean when you say that this is only a book loss? That should be cleared up, if that is what actually did happen.—A. That is actually what happened. The board was carrying a certain inventory of gold and foreign exchange on which a certain Canadian dollar value had been placed, and that Canadian dollar value was changed and consequently there was an inventory loss.

*By Mr. Fulton:*

Q. How have you acquired them? Have you bought those with Canadian dollars?—A. The foreign exchange?

Q. Yes.—A. The foreign exchange was all bought with Canadian dollars.

Q. You paid the 10 per cent premium as far as American currency was concerned—A. The premium would be the same. At least, there is no difference in respect of a loss as between the American dollar or sterling.

Q. The point I am trying to bring out is that you actually paid 10 per cent premium when you bought that money?—A. Yes, that is right.

*By Mr. Lesage:*

Q. There were some reserves; some past gains?—A. I would be glad to go over the statement made the other day regarding the nature of the revaluation operation if that is the wish of the committee.

*By Mr. Fulton:*

Q. Mr. Raminsky said at page 16: "Adding the 11.5 loss on the forward position to the 128.4 loss on the spot position makes an aggregate loss of approximately \$140,000,000 had revaluation been effected at the end of 1945." You are using the December 31 figures?—A. That is right.

Q. You spoke of a loss.

Mr. RINFRET: There is also a gain.

The WITNESS: If you read the next paragraph of my statement there is a further explanation.

*By Mr. Jackman:*

Q. Is not this the fact, that supposing on July 4 we decided we had to get \$10,000 in American funds to support our embassy in Washington and we went into the market—that is, the government did—and purchased \$10,000 of

American funds it would cost us \$11,000 of the Canadian taxpayers' money. Then the money was revalued; but had we waited until the 6th of July we could have bought those \$10,000 American for \$10,000 Canadian which would only have meant \$10,000 to the Canadian taxpayer and not \$11,000 of the Canadian taxpayers' dollars. As it is we have a book inventory of American holdings in gold in the exchange fund, and they were acquired with the taxpayers' money at the rate of \$1.10. Had we acquired them since July 5 we could have acquired them for 10 per cent less of the Canadian taxpayers' dollars?—A. The Canadian government owns American dollars, so to support the Canadian embassy in Washington the Canadian government merely draws on American dollars which it already owns.

Q. At \$1.10?—A. The fact is that there has been a loss on the Foreign Exchange Control Board's inventory of gold and foreign exchange.

*By Mr. Macdonnell:*

Q. I take it that is one of the instances in the practice of foreign exchange control and we hope the right decision was made on the 5th of July. I believe it is perfectly clear; there is no mystery, and I think we are all in agreement on it.

*By Mr. Fulton:*

Q. How much did you pay for the gold which you bought from Canadian mines before July 5?—A. It was bought from the mint, as I mentioned in reply to a question a little while ago on the basis of the price of \$38.50 Canadian per fine ounce. That was equivalent to the basis of \$35 American in New York.

Q. Would it take very long to explain why you did that instead of buying it at \$35 as you were buying in Canada from Canadian sources presumably? Why did you adopt the American value?—A. Gold has a fixed world price. It is \$35 United States per fine ounce. That is the price at which you can sell gold to the federal reserve system and buy gold from the federal reserve system. That is the price at which gold transactions take place in London. That is to say, they take place for a price in sterling which, at the prevailing rate of exchange, is the equivalent of \$35 United States per fine ounce. At a time when the Canadian dollar was quoted at a premium of 10 per cent over the American dollar \$38.50 Canadian was the equivalent of \$35 per fine ounce.

Q. In other words, the American value is the value which is accepted throughout the world?—A. Yes, broadly speaking that is one way of putting it. If gold does move internationally for the settlement of international balances then the countries which use gold for the settlement of international balances must maintain a uniform set of prices, and that price is \$35 United States per fine ounce.

Q. My other question arises out of an earlier statement that you made about the spread of half a cent between buying and selling. How is that divided between the board and your agents, the banks?—A. I explained that yesterday.

Q. That is all right. I will read it.

*By Mr. Jackman:*

Q. May I ask this question? While the board showed a profit of \$14,360,000 on turnover of foreign exchange last year that is the profit, I presume, after the banks have been allowed their percentage?—A. No, as I mentioned before that is the gross.

Q. This is the gross?—A. Yes.

Q. This is a cost, of course, to Canadian business. It is the only place the money can come from. It is in a sense earnings of the board but it is a cost of doing business for the Canadian business man and the public. It is the only place it can come from?—A. Yes.

Q. I wonder if the witness could tell us what would be the minimum rates under board control at which buying and selling rates could be fixed? For instance, it used to be a full 1 per cent. I had occasion to telephone the board one time to find out how much they were making. They were unable to answer owing to the secrecy observed about these transactions, but within a few months—not that it had anything necessarily to do with my questioning of them—the rate was cut in half. In other words, the Canadian community were paying twice as much apparently as was needed for this service. What I am asking the witness is how little spread between buying and selling rates, which is the cost to the Canadian public, can be maintained and yet not see the board in the red? I am not speaking of in the red as an offset to speculative transactions or unusual transactions such as the revaluation of the currency, but the actual physical handling of the bills of exchange which you get, the contracts. How small a spread could you likely get along with?—A. That would necessarily depend upon two things mainly, on the volume of turnover of foreign exchange, which would determine the gross revenues of the board at given spreads, and upon the board's expenses. The principal expenses of the board are the commissions which are paid to the banks, the authorized dealers of the Foreign Exchange Control Board, and the interest paid on loans from the dominion government.

Q. What has that interest on loans paid to the dominion government got to do with merely matching buying and selling transactions of the merchants? Does that not have to do with the management of our whole economy through this control board? It has nothing to do with the matching of buying and selling transactions by business men, has it?—A. The operation of the exchange control system—and I must assume for the purpose of this question you are not questioning whether there should be an exchange control system but you are trying to find out what is the minimum proper spread between the board's buying and selling rates?

Q. Yes.—A. The operation of a system of foreign exchange control involves the exchange control board in holding certain reserves in foreign exchange. Without reserves it obviously would be impossible to maintain stable exchange rates. In order to hold those reserves money must be tied up. Those reserves are held for the benefit of the business community. Money must be tied up. Canadian dollar capital must be tied up in holding reserves just as capital is tied up in holding inventories in private business. I suggest it is right that the business community, which makes use of the facilities of the Foreign Exchange Control Board, should pay for the cost of maintaining that inventory.

Q. But in the pre-war days when merchants had all the buying and selling of exchange necessary for their transactions it was not necessary for anyone to have a big fund such as the board maintains at the present time and for which it must pay out a large sum, \$8,470,000, in interest in order to get the money to constitute this fund. That did not exist before. Merchants are not only not better off in the way of getting a more economical exchange rate, but they are paying a very much higher spread between buying and selling, particularly on the real sizable transactions that involve the real business of the country, than they were before.

Mr. MACDONNELL: I suppose the fair comparison is between the rates now and the rates previously.

The CHAIRMAN: Then, of course, there is a compensating item, and that is the interest yield on the investments that are made.

The WITNESS: That is perfectly true.

*By Mr. Jackman:*

Q. That leads to another line of thought. What rate of interest do you get on the assets that you have, your investments? If you just look at the state-

ment of the assets as of December 31, 1945, you had in Canadian dollars \$23,000,000. There is no interest earned on those, is there?—A. When we have excess Canadian dollars we employ them in treasury bills and earn the treasury bill rate.

The CHAIRMAN: If you look at the 1945 statement you will find the interest item there.

*By Mr. Jackman:*

Q. Perhaps Mr. Rasminsky could calculate rapidly what is the total income percentage-wise on \$1,435,000,000 of assets. From earnings on investments and foreign balances there is \$2,600,000 on \$1,435,000,000. I do not know what percentage that is.

The CHAIRMAN: The interest earned was 2·655 and the interest paid was 8·470. The difference between those amounts would be the net cost, would it not?

Mr. JACKMAN: I suppose one may look at it that way.

The CHAIRMAN: The difference between those amounts would be the cost to the board of holding all these different exchanges and making them available to the Canadian business man.

*By Mr. Jackman:*

Q. It costs nearly \$6,000,000 to— —A. When you say "cost" the money, of course, is paid to the dominion government. It is not paid to anyone else. It costs the dominion government to raise money.

Q. As you admitted in our first session it does cost the dominion government money to raise money?—A. Yes, as I stated in our first session, it does.

Q. On \$1,435,000,000 of assets the income earned by the board is only \$2,000,000?—A. I would find it easier to deal with your questions if I knew whether you are arguing that the board is earning too much money or that we are not earning enough money. I thought your argument before was that the spread was too much and we were earning too much money.

Q. You have charged too much money. I do not say you were earning too much. You are charging the business community a spread larger than prevailed in normal times. The point I am endeavouring to make at the present time is that you said the other day it made little difference in the long run, at least, whether or not Canada as a whole had a billion dollars of United States assets in the fund or a billion and a half provided the other \$500,000,000 was in the hands of Canadian nationals in the form of American securities?—A. Excuse me for interrupting you, but what I said was that it made little difference as of July 15, 1946. It made little difference momentarily, but I did give reasons why I thought it might make a good deal of difference in the long run whether the board was holding funds.

Q. I thought it was the other way around. You introduced the terms "static" and "dynamic" which were a little over my head at the time as you applied them.—A. I am sorry. I could not possibly have said that it made little difference in the long run. I did say that as of this given moment of time that it would not be a serious situation if Canadians were holding \$500,000,000 more in securities and the F.E.C.B. \$500,000,000 less in cash.

Q. When would it make a very vital difference, because what I am suggesting now is that the \$500,000,000 in the hands of Canadian nationals will probably have a much higher earning rate in American funds which we so badly need than if the \$500,000,000 is included in the assets of the board.

*By Mr. Macdonnell:*

Q. I think this question is very important. I should like to know very much just what Mr. Rasminsky does feel about that, in other words, if it is possible—and perhaps this is a slight addition to the question—to have machinery whereby the holdings of individual Canadians can be made virtually immediately available in case of emergency. That seems to me very relevant to the question as to how much freedom there should be. For example, suppose Mr. Rasminsky answered that a technique could be developed whereby assets in individual holdings in the United States of individual Canadians could be made available under emergency to the government; then I would think it would be possible for a much more liberal policy in the way of investment—I am talking about capital account now—to be pursued. I was very interested in the answer he made the other day and I am very interested in having it pursued because, as I say, it seems to me a very important point.—A. I can answer it only from the technical aspect. It is a question of government policy whether foreign exchange should be provided to enable Canadians to invest in marketable securities in the United States. From the technical aspect I think that the circumstances in which it would be necessary for the Canadian government to take over those securities would be circumstances in which the securities were probably selling at very low prices in the United States. Those who would now be the most insistant that this process of investment in foreign securities was desirable would be the most pained at having their securities taken away from them at low prices. Mr. Jackman referred the other day, when he raised the same question, to the advantages to the United Kingdom and to the world of the large British holdings in American investments, and I agreed with him those advantages were very real. It was, however, the case, as Mr. Jackman and you, sir, no doubt know, that those securities were taken over from British holders—

Mr. JACKMAN: After Dunkirk.

The WITNESS: —at a time when they realized very low values when sold in the American market.

*By Mr. Macdonnell:*

Q. Were they all expropriated, or borrowed?—A. Most of the marketable securities were actually vested, paid for in sterling and sold in the American market, and some marketable securities and many direct investments were taken over and pledged as collateral against the original R.F.C. loan.

*By Mr. Hackett:*

Q. As a condition of it?—A. Pledged as collateral as a condition of the loan.

Q. It was not a voluntary movement?—A. That I do not know.

Mr. LESAGE: It was a contract.

The WITNESS: The particular case Mr. Jackman mentioned the other day as an illustration of the advantage of holding foreign investments, the American Viscose case, was a particularly good example of a transaction which took place at prices which the British owners thought did not correspond to the real value of the property that was being expropriated. That is one difficulty. Another relevant factor I think I should draw your attention to—

*By Mr. Hackett:*

Q. Just before you go on with that would you say to what extent Canadian securities held abroad followed the same course as American securities?—A. Of being expropriated by the United Kingdom government and sold in Canada?

Q. Yes.—A. I can give you some information on that. It is contained in table 6 on page 30 of the Foreign Exchange Control Board report. That shows that the official repatriation of Canadian securities, that is to say, repatriation by the dominion government of its own securities which were held in the United Kingdom by residents of the United Kingdom, amounted in the course of the war to just over \$700,000,000. Private redemptions of Canadian securities and other repurchases of Canadian securities amounted in the aggregate to \$287,000,000. Not all of those were actual vestings. Some of them were vestings.

*By Mr. Blackmore:*

Q. Some of them were what?—A. Vestings. I mean by that that the securities were requisitioned by the United Kingdom government, taken over by the United Kingdom government and sold in Canada. I think the great bulk, however, were voluntary sales of the securities in Canada by the United Kingdom owners. Does that answer the question, Mr. Hackett.

Q. Well, I dare say it answers it as far as you can go. You have not said how far the transactions were coerced in the United States and you have not expressed a very definite opinion as to how far Canada insisted on repatriation of the securities held in Britain.

Mr. MAYHEW: I do not think you could expect the witness to say that.

Mr. JACKMAN: We had a collateral loan or it was a virtual collateral loan; I refer to the \$700,000,000 loan. We did have securities as collateral behind it. They were disposed of by Great Britain. The proceeds must be used to pay off that loan. I understand about \$200,000,000 has been realized on those sales, so that the loan to Great Britain that was made some years ago is now \$500,000,000.

Mr. LESAGE: \$530,000,000.

Mr. JACKMAN: Yes.

The WITNESS: May I please be allowed to add the second general observation that I wanted to make on Mr. Macdonnell's question. If you look at Table V on page 21 of the Foreign Exchange Control Board report you will find that Canadians have sold United States securities in the course of the period covered by the table—which is September 16, 1939 to the end of 1945—to the extent of \$236,000,000. There was no pressure of any sort brought on those Canadians to sell those American securities. They were subject to no compulsion or no special inducement to do it. But they sold. That was the decision of the individuals. They sold that amount because they chose to sell that amount of securities in that period. The third comment that I should like to make is—

*By Mr. Hackett:*

Q. Sold or matured?—A. Yes, that is right. Some of them may have been bonds which matured, but the great bulk constituted securities which were sold.

The other thing I wanted to mention was this, that the regulations of the board regarding security exchange do permit a maximum of freedom, as Mr. Jackman no doubt knows, in the exchange by residents of various types of securities in the American market. A resident who wants to diversify his holdings of securities by adding an American security to his portfolio is able to arrange an exchange of securities by selling a Canadian security in the American market through a Canadian broker and converting the proceeds into an American security. And of course he is free to switch from one American security to another American security. So that as we are operating at present, no Canadian is frozen in his particular holdings of American securities and no Canadian who wishes to do so is prevented from exchanging a Canadian security for an American security through a switching operation of this type.

Q. There must be a limitation there or you would have an export of capital.—A. No. There is no export of capital.

*By Mr. Jackman:*

Q. You have to find an American buyer?—A. Yes, there must be an American buyer for the Canadian security which is sold. That is the reason why transactions of that type have been permitted. They leave Canada's net international position just as it was before. If one takes the case of a Canadian security being exchanged for an American security by a Canadian, then when all the dust is cleared away after the transaction, what you have is increased Canadian holdings of American securities and increased American holdings of Canadian securities, with Canada's net international position unchanged, and with the Canadian holding the security that he wishes to hold.

*By Mr. Hackett:*

Q. Then you do control the proceeds of the sale of the American security in the American market?—A. Yes. We do ensure that if a security is sold in the American market, that either the proceeds are—

Q. Reinvested?—A. Reinvested in another American security.

Q. Or brought home?—A. Or brought home.

*By Mr. Jackman:*

Q. Of course, the difficulty of operating under that policy for a good many years was that Canadian securities as a class—I am not speaking of bonds so much, but rather of industrial securities—sold in the American market not only at a disparity of 10 per cent to equalize the exchange rate but you had to add another 10 per cent on because of very poor markets in the United States for Canadian securities at that time. Even to-day while you have not got such a wide spread, you still have to pay an extra per cent or so in order to get American funds through the sale of Canadian securities in the United States, and you have not got freedom. You may want to sell down there one day and bring your funds home here, and then you may want to go back there. You have to go through this very complicated process. As I see it, it does not affect the board one way or another. You end up the same, except at considerable cost to the individual.—A. I could not agree with that.

Q. Which part do you not agree with, if you agree with the 10 per cent exchange fund and agree with the 10 per cent discount on top of that for three or four years with the United States. That is a fact. There is no question about that.—A. That is a fact; and it is precisely because of that fact that I find myself unable to agree with the inference you draw from that. When there is a 10 per cent discount on the price of Canadian securities in the American market as compared with the exchange rate—

Q. Over and above the exchange rate.—A. Over and above the exchange rate, then admittedly it is difficult for Canadians who wish to invest in American securities to do so via the security route.

Q. Yes.—A. But those are precisely the circumstances in which Canada is in a difficult position. The discount that you speak of prevailed in the American market in 1940, 1941 and 1942. It would have been quite unthinkable at that time, in the light of our exchange position, to have even, I suggest, held such a discussion as this as to the desirability of providing funds for investment in Canadian securities. The security route is an expensive route at times when Canada's exchange position is difficult. At times when the exchange position is less difficult, then there may be, as you say, some additional cost involved. But then, as I see it, the case that you are making is not a case which is based upon any general principle that it is desirable for Canadians to hold American securities, to have additional investments abroad, or that it is desirable in terms of freedom or the liberty of the individual to hold his investment in the

form that he likes. The case you are making, as it seems to me, is a case which runs in terms of additional cost of one per cent through having to achieve the investment portfolio that he wishes via the security route.

Q. You mean the whole thing boils down to the one per cent extra charge? Is that the suggestion?—A. I think it does, Mr. Jackman.

Mr. JACKMAN: I do not doubt that, at the present time, that is so. But you see, parliament and all of us cannot know everything about other people's business. We live in a highly complicated world to-day and businessmen can much better run their own shows than to have regulations forced on them which are not necessary. You often have situations like that arising where a man, as a result of the sale of securities in New York, may have a substantial cash balance lying idle in the bank there. At the same time he wants to do a transaction in Canada. He would use that cash if it were readily convertible from one currency to another, but he cannot do that without this extra cost which is troublesome to him as well as expensive, so he has to borrow money from the bank to-day in order to finance something in Canada whereas he might be using his own funds. It is not only a matter of cost. It is the worry and bother of it all. All these things tend to discourage businessmen from going ahead and creating business and employment. That situation which I have mentioned to you happens not infrequently in certain types of business. What I am suggesting is that the board just cannot see the problems of every businessman, and they are multifarious; and the more freedom we can give him to create business himself, the better off the community is.

Mr. MACDONNELL: May I suggest, arising out of this, that perhaps Mr. Rasminsky will connect this in his mind with the general observation I made earlier about the extent of operations which we have to take into account; and perhaps also he will consider, arising out of his own answer the other day and notwithstanding the qualifications he has made to-day, the extent to which the governmental authority, the control board, if it has power to impound securities at any time, can protect itself. And in arriving at that conclusion, I take it that it has always to be borne in mind that the Foreign Exchange Control Board in its powers is not confined wholly to assets it has from time to time, but it has those large resources which it can get from the government of Canada so that you do have time to turn around. If the emergency comes and you need to impound those securities, you do not have to do it overnight. You have a little elbowroom.

The WITNESS: Of course, in this legislation, there is no power to do that.

Mr. MACDONNELL: No. I am suggesting that you consider whether you should take that power. I am throwing that out as a possible way of escaping from rigidity.

The CHAIRMAN: Of course, that would be a very difficult thing to do. As Mr. Rasminsky has pointed out, if it became necessary to exercise it, it would occur at a time when holders of these securities would feel that they were being very unfairly dealt with through their securities being taken on a low market.

Mr. MACDONNELL: I am just suggesting the possibility of it.

The CHAIRMAN: Subject to that, shall we carry section 19?

Mr. JACKMAN: Mr. Chairman, may I just point this out to the committee, on this business of running everybody else's business about which we cannot possibly know very much. I noticed an advertisement in the *American Financial Journal* some time ago as follows: "American-made markets in Canadian securities." I wondered to myself why on earth there was an advertisement like that, and what the meaning of it was. Why did they not quote the Canadian market. The answer is that the American who buys Canadian securities just cannot buy them in this country, take them home with him if he likes or leave

them here and sell them in Canada and get the money back again. So what happens is that we maintain the Foreign Exchange Control Board as a direct cost. I will not say the cost is not worth it, but there are great costs in maintaining this Foreign Exchange Control Board. You have Americans who want to participate in the economic development of this country so they buy Canadian securities, not in Canada. They buy them in the United States; whether they buy from other Americans or where they get them I do not know. But it has become a very extensive business, so extensive that there are actually markets there; they are not formal exchanges but they are called "over the counter markets". You buy Smelters or some other Canadian stock—say Shawinigan, Canada Power or something of that kind—in New York and you sell it in New York. The Canadian financial community, among whom there are many respectable people—the taxpayers of this community—are done out of that business because there is not the freedom of exchange which normally prevails, and you have an advertisement like the one I mentioned, "American-made markets in Canadian securities." I think it is a reflection on our community and means taking away a substantial part of the income of many of those interested in the financial business.

Mr. BLACKMORE: Is not the object constantly to be kept in mind the welfare of Canada?

Mr. JACKMAN: That is right.

Mr. QUELCH: I think that is an important point, Mr. Jackman has stressed the fact that the business man will know best what result a certain transaction will have on his own business. On the other hand, surely he must concede that the Foreign Exchange Control Board will know best what the effect of that transaction may be upon the national economy or the aggregate of such transactions.

Mr. JACKMAN: We admit that.

Mr. QUELCH: That is a very important point.

Mr. JACKMAN: Yes. These transactions, as I am endeavouring to explain, do not affect the economy one way or another. As Mr. Rasminsky has said, we are allowed to trade in a certain class of security, what you have in American securities you can trade within a certain class. But the American cannot come over here and buy a Canadian security, sell it and take back his funds.

Mr. QUELCH: You referred to 1940. At that time it would have had a detrimental effect upon the economy of Canada.

Mr. JACKMAN: I do not think the operations I am suggesting have very much effect.

Mr. BLACKMORE: Does this Foreign Exchange Control Board control except in the interests of Canada?

The CHAIRMAN: I think the point has been fully developed. I know Mr. Rasminsky will turn it over in his mind. Subject to the reservation suggested, shall we carry sections 19 to 22?

Mr. BLACKMORE: Mr. Chairman, could we not have an answer to that question? It is a simple question.

Mr. RINFRET: That comes under section 23, does it not?

Mr. BLACKMORE: Well, the question has been raised. I resent having the clamps put on when I start to talk. We have listened to these questions for a long time. I want to go into this thing. Does the Foreign Exchange Control Board exercise control in respect of any security except when it does affect the economy of Canada?

The WITNESS: Except one that does what?

Mr. BLACKMORE: That does affect the economy of Canada.

The WITNESS: No, sir.

Mr. BLACKMORE: Well, that is the answer to the whole question.

The CHAIRMAN: I understood, Mr. Blackmore, that you had made a statement and I did not think anyone was objecting to it. I was not attempting to shut off discussion.

Mr. BLACKMORE: I had asked a question.

The CHAIRMAN: But I did think we had canvassed this problem pretty fully and that the time had arrived when we should, in fairness to the witness, carry sections 19 to 22.

Mr. JACKMAN: In fairness to the witness?

The CHAIRMAN: Yes.

Mr. JACKMAN: What about fairness to the people of Canada?

The CHAIRMAN: It is not fair to Mr. Rasminsky that after a point has been fully gone over, it should be further elaborated on.

Mr. JACKMAN: Let me have this clearly stated as an answer from Mr. Rasminsky. If the \$500,000,000 which we are talking about being either in the fund or in the hands of Canadian nationals were invested in American securities, where would it likely have the greater earning power?

The WITNESS: Mr. Jackman, if you give me a list of the security portfolio in which the \$500,000,000 is invested, I shall try to tell you.

Mr. JACKMAN: You tell me what your portfolio yields and I will tell you what the public portfolio would yield.

Mr. RINFRET: Might yield.

The WITNESS: I am sorry, Mr. Jackman; I do not want to be—

*By Mr. Jackman:*

Q. May I ask this question. Does your average earning rate on the \$1,500,000,000 which you have in this fund equal 3 per cent?—A. No, sir.

Q. No. Then what does the average security earn in New York on the stock exchange, whether it is common or preferred stock,—and I will even throw in government bonds? Taking the whole cross section, I think the average yield would be under 3 per cent. It is in that neighbourhood anyway. What I am suggesting is that if the board would see fit to allow Canadian nationals to hold some of this fund in American assets instead of them holding the fund themselves, there would be greater earning power, and that earning power would also be in American funds and that is the very thing the board wants. I want to be sure that there are very strong reasons why the clamps should be put on acquiring United States funds for capital investment in that country as against holding those funds in the Foreign Exchange Control Board. The points I have mentioned are sound and the earnings would be greater.—A. Mr. Chairman, the Minister of Finance in a rather extensive statement introducing this measure gave the reasons why in the opinion of the government foreign exchange control should be put on a statutory basis. I have tried on two separate occasions when Mr. Jackman has raised this particular question to answer him to the best of my ability. If it is your wish, or the wish of the committee, that I should repeat the evidence I have already given twice before, I will be glad to do so.

Mr. MARIER: I do not think that is a question we should discuss here. That is essentially a question of principle, whether or not we should have a control board, and I submit, Mr. Chairman, that question of principle has already been decided by the House. I do not think it is the duty of this committee to decide whether we will have a control board or not. Mr. Jackman may be right that money in the hands of the people will earn more revenue

than it would if it were left in the hands of the Foreign Exchange Control Board, but there have been many reasons given for that. I do not think it is for the committee to discuss that point. The point we have to discuss is, if we have to install a control board, in what form we should do it. I take that to be the duty of this committee, I think we should proceed with it.

Mr. HACKETT: Mr. Chairman, before we become too difficult, I wonder if the question asked by Mr. Jackson could be answered by Mr. Rasminsky.

Mr. MARIER: It has already been answered once or twice.

Mr. JACKMAN: I think I have already got the answer I asked for, Mr. Rasminsky said that this fund would not earn more than three per cent.

The CHAIRMAN: Well, while we are on that point shall we carry sections 19, 20, 21 and 22?

Mr. HACKETT: Just a minute, Mr. Chairman; has this information been given? What is the charge on forward contracts?

The WITNESS: It is one-sixteenth of 1 per cent per month.

Mr. HACKETT: One-sixteenth of one per cent per month?

The WITNESS: Yes, sir.

The CHAIRMAN: Section 23, Canadian currency transactions involving non-residents.

Mr. LESAGE: We have been discussing that all afternoon.

The CHAIRMAN: But is it carried?

Carried.

Mr. MACDONNELL: Just a minute, Mr. Chairman, would that be the appropriate section under which to discuss the question of the import and export of capital transaction?

The CHAIRMAN: Yes.

Mr. MACDONNELL: Then I think my question which I raised comes in here. I would as a matter of fact have liked to have had it left over until the witness had time to think about it.

The WITNESS: May I point this out, Mr. Macdonnell, that in this measure as drafted there is no provision which says that there will not be an import of capital or that there shall not be an export of capital. All this measure does is to provide the machinery for control.

Mr. HACKETT: Whereby discretion by somebody may be exercised.

The WITNESS: That is right, Mr. Hackett; but the question of the precise restrictions which may be applied from time to time is a question which I suggest is distinct from the question of machinery of control.

The CHAIRMAN: I am quite willing, Mr. Macdonnell, to reserve your right so that if you wish to move a vote of the committee on it after Mr. Rasminsky makes his particular offering on the point raised, you may do so.

Mr. MACDONNELL: Perhaps I might make more specific what I had in mind. Mr. Rasminsky I think has referred to-day to certain practices which have arisen under which the board has been given a great deal of freedom along certain lines to provide for certain types of business carried on. Am I right?

The WITNESS: That is right, sir.

Mr. MACDONNELL: Now, Mr. Chairman, it is that kind of thing that I had in mind when I said if the board should make public the general principles on which it acts and not leave the situation as it is now to a wide open discretion. The board I think are acting sensibly and in a businesslike way; but what I wish is that it were possible, and I hope it may be possible, for the board to

outline certain general rules which will guide its proceedings. For example, these things which have been indicated might be among them. What I am trying to get is a general indication of practice.

The WITNESS: Yes. In this report, to take one example, Mr. Macdonnell, there is a fairly extensive outline of the board's practice as regards different types of transactions and also in the instructions to security dealers, of which you were given a copy the other day.

Mr. MACDONNELL: Those instructions, if I may say so, seem to apply purely to techniques, if I remember correctly. There is no statement of the general policy which is guiding the board. Now, you say in the report of the board itself. I haven't that in mind. That may be another indication, I should check up. The kind of thing which I wish you could state for us is the general principles under which you operate. I appreciate that you must reserve for yourself some power in your capacity; but in my mind, as I said last night, it is all working in the direction of controls and not of the freedom of the individual.

The CHAIRMAN: Then, Mr. Rasminsky, may I ask that you prepare yourself as to the answer on the points raised by Mr. Macdonnell with respect to general principles which guide the practice of the board, so that we may have it at the next meeting we have on this subject.

Before we adjourn, we are not sitting tonight, so I assume that our next sitting will be tomorrow afternoon, and there are three private bills that are pressing for attention. Is it your wish that we should deal with them at the opening of our meeting tomorrow? I fear they will take most of our time.

Mr. HACKETT: Are they ready for distribution?

The CHAIRMAN: Oh, yes, they are distributed.

Mr. HACKETT: Do they relate to income tax and succession duty?

The CHAIRMAN: No, they are private bills, two of them to amend existing Acts of incorporation of insurance companies, and one to incorporate a co-operative life insurance company.

Then we will sit tomorrow afternoon at four o'clock.

Mr. JACKMAN: I should like to ask the witness one more question before we adjourn. I wonder if the witness will be good enough to provide tomorrow a breakdown of the \$500,000,000 of capital investment of United States citizens during the last five years?

The WITNESS: A breakdown of the various types of securities?

Mr. JACKMAN: Yes, such things as government bonds and major items such as electricals.

The WITNESS: I can give you all the information I have on that now.

Mr. BLACKMORE: While Mr. Rasminsky is looking that matter up I wonder if there is any reason why Mr. Jackman could not provide Mr. Rasminsky with a portfolio to take with him so that Mr. Rasminsky will be able to answer his question specifically. I have a feeling that Mr. Jackman didn't get satisfaction.

Mr. JACKMAN: Oh yes, I did. Mr. Rasminsky admitted that this would not earn 3 per cent. I wanted to know what it would earn had that amount been invested by private owners. He admitted that the average earning rate of board earnings from securities in the United States—government bonds and investments of that type—would not be 3 per cent.

The WITNESS: Taking into account possible capital losses I would not be willing to make any such admission.

Mr. JACKMAN: I do not want to confuse capital with income. Did you not state that your fund did not earn 3 per cent on the average?

The WITNESS: I did make that statement.

Mr. JACKMAN: To satisfy Mr. Blackmore, is it not a fact that the average return which might easily be obtained—

Mr. BLACKMORE: Suppose you name one specific security so we can get our teeth into it.

Mr. JACKMAN: Very well, let us take United States Steel preferred stock.

Mr. BLACKMORE: Is that a Canadian security?

Mr. JACKMAN: No, it is one of the outstanding United States investment stocks. What I am suggesting is that if our nationals were allowed to invest in American securities they would get higher returns and the country would have practically the same. My thought is that Mr. Rasminsky is hurting Canadian economy by insisting on this cash availability rather than by having the equivalent in American securities held by Canadian nationals.

Mr. BLACKMORE: I gathered from Mr. Rasminsky's testimony that the board makes available American dollars for the purchase of American securities.

The WITNESS: No.

Mr. JACKMAN: No, it does not, Mr. Blackmore; that is the whole point.

The WITNESS: If I may say this, and I say it only because Mr. Jackman said that I was hurting Canadian economy; if Mr. Jackman feels that the possibility of individual Canadians earning more on investment in American securities than the exchange fund earns in United States dollar assets is a reason for doing away with exchange control, then it seems to me that he is taking into account only one of the many factors, and to my mind at any rate one of the least important factors that have a bearing on the position.

Mr. JACKMAN: I will be the first to agree with you on that statement, but what I am suggesting is that there are two points to foreign exchange control, and I believe there are no two ways about it. I do not think we can extend as much good to the Canadian community by maintaining these controls as we can by having freedom. So, let us have freedom.

Mr. BLACKMORE: At some convenient time I would like to have Mr. Jackman prepare a statement by which he can establish his points and then come and give it to us.

The CHAIRMAN: I think the point has been clearly made, if the Foreign Exchange Control Board should be willing to buy the type of securities that would yield a higher rate of interest, why then of course the Foreign Exchange Control Board would earn comparable interest; but, is it wise for the Foreign Exchange Control Board to speculate?

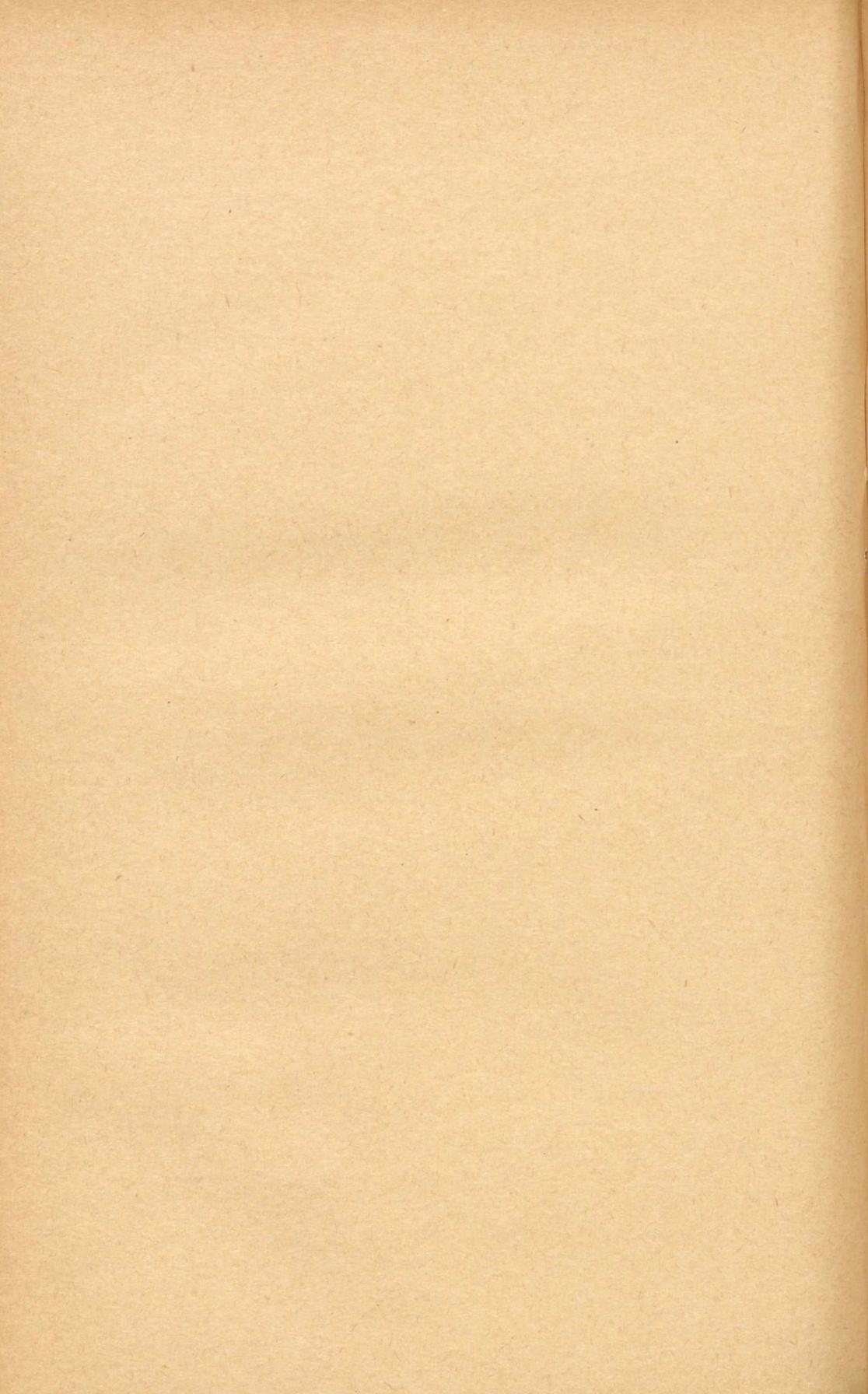
Mr. JACKMAN: It is a small point, that is all. It is not going to stop them, Canadian nationals will do it.

Mr. LESAGE: In other words, playing the stock market.

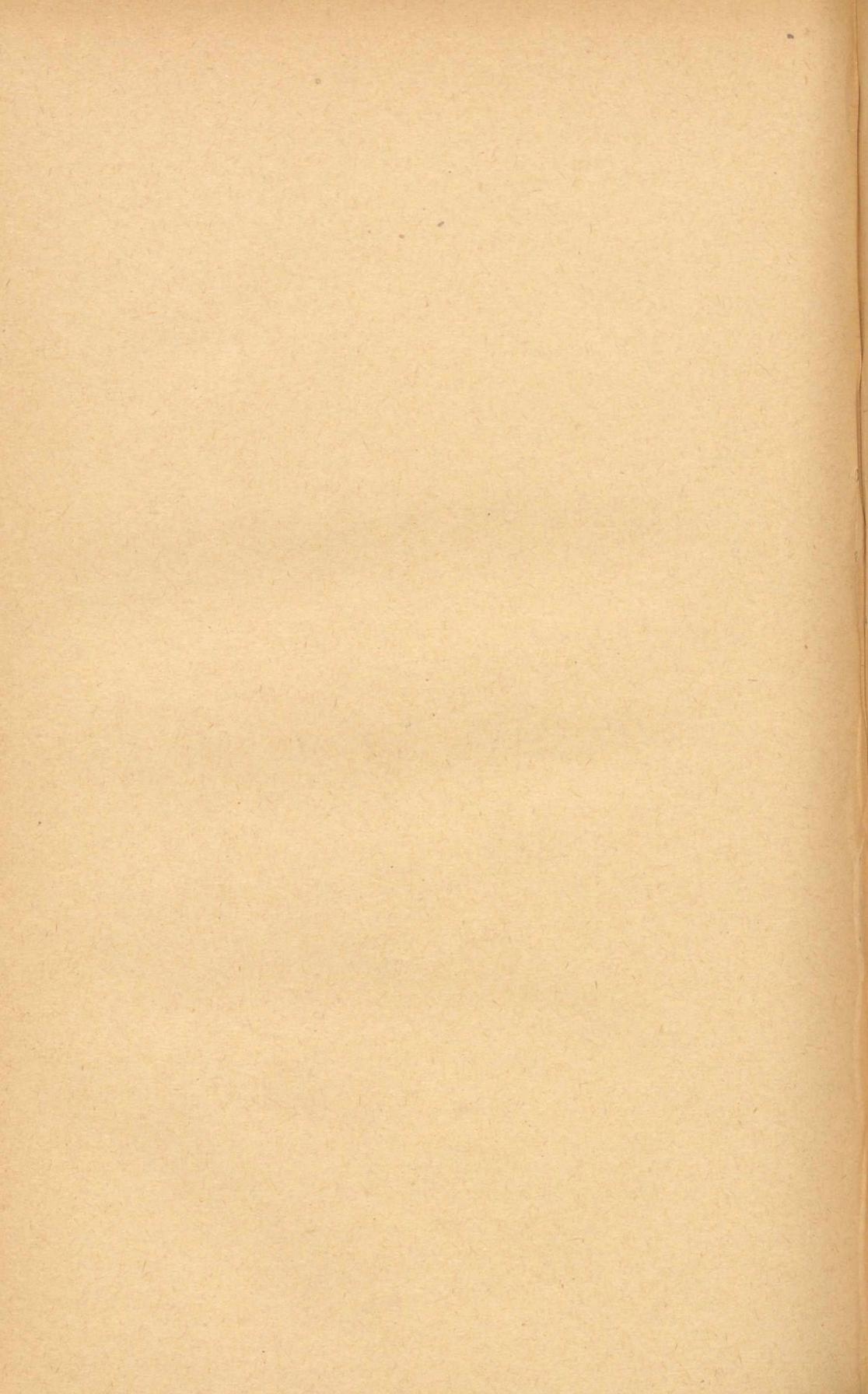
The committee adjourned at 6.00 o'clock p.m. to meet again tomorrow Thursday, July 18, 1946, at 4.00 o'clock p.m.











SESSION 1946

HOUSE OF COMMONS

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STANDING COMMITTEE

ON

# BANKING AND COMMERCE

---

BILL 195, FOREIGN EXCHANGE CONTROL

---

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

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TUESDAY, JULY 23, 1946

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## WITNESSES

Mr. L. Rasminsky, C.B.E., Chairman (Alternate), Foreign Exchange Control Board;

Mr. H. H. Tarr, Secretary, Foreign Exchange Control Board.

OTTAWA  
EDMOND CLOUTIER, B.A., L.Ph., C.M.G.,  
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY  
CONTROLLER OF STATIONERY  
1946



## MINUTES OF PROCEEDINGS

TUESDAY, July 23, 1946.

The Standing Committee on Banking and Commerce met at 4.00 p.m., the Chairman, Mr. Cleaver, presiding.

*Members present:* Messrs. Argue, Breithaupt, Cleaver, Cote (*St. John's-Iberville-Napierville*), Dionne (*Beauce*), Fleming, Gour, Hackett, Harkness, Hazen, Irvine, Isnor, Jackman, Lesage, Macdonnell (*Muskoka-Ontario*), Marier, Marquis, Mayhew, Rinfret, Thatcher.

*In attendance:* Mr. R. W. Mayhew, M.P., Parliamentary Assistant to the Minister of Finance; Mr. Louis Rasminsky, President (Alternate) and Mr. R. H. Tarr, Secretary, Foreign Exchange Control Board.

The Committee continued its consideration of Bill 195, an Act respecting the Control of the acquisition and disposition of Foreign Currency and the control of transactions involving Foreign Currency or non-residents.

Questions were answered by Mr. Rasminsky and Mr. Tarr.

Clauses 23 and 24 were adopted.

Clause 25 stand.

Clauses 26 to 31 inclusive adopted.

Mr. Harkness moved that clause 32 be deleted.

Motion negatived on division: Yeas 4; Nays 6.

Clauses 32, 33 and 34 adopted.

Clause 35 (1) and (2) adopted and sub-clause (3) allowed to stand.

Clauses 36, 37 and 38 adopted.

Clause 39 (1) adopted and sub-clause (2) stand.

Clause 40 adopted.

At 5.30 p.m. the Committee adjourned until 8.00 p.m., this day.

### EVENING SITTING

The Committee resumed at 8.00, Mr. Cleaver, presiding.

*Members present:* Messrs. Belzile, Blackmore, Breithaupt, Cleaver, Dechene, Irvine, Jackman, Lesage, Marquis, Mayhew, Quelch, Rinfret, Ross (*Souris*), Sinclair (*Ontario*).

The Committee gave further consideration to clause 41 under discussion at the time of adjournment.

The clause was allowed to stand.

Clause 42 (1) and (2) adopted and sub-clauses (3) and (4) stand.

Clauses 43 to 74 inclusive adopted.

At 9.15 p.m., the Committee adjourned until 4.00 p.m., Wednesday, July 24.

R. ARSENAULT,  
*Clerk of the Committee.*

MINUTES OF PROCEEDINGS

of the

General Assembly of the

Province of Ontario

for the year 1880

Volume 1

Part I

Session of 1880

January 1st to February 1st

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## MINUTES OF EVIDENCE

HOUSE OF COMMONS,

July 23, 1946.

The Standing Committee on Banking and Commerce met this day at 4 o'clock p.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: I have one announcement to make before we commence the afternoon sitting. Mr. Rasminsky requires to attend a meeting of the executive directors of the international monetary fund on Friday of this week which means that he will not be available to this committee after Wednesday afternoon.

I would imagine that the subject has been pretty fully discussed, and the suggestion I was going to make was that if the committee is willing we would carry the actual sections of the bill on the undertaking that we would revert back to the preamble in order to deal with the four express points raised by Mr. Macdonnell at the opening of our meeting last week. Perhaps that would be satisfactory to you, Mr. Jackman, and you would be willing that we should carry on with a section at a time.

Mr. JACKMAN: We can carry on, anyway.

### Louis Rasminsky, recalled.

The CHAIRMAN: We are now on section 24, "Designation of Currencies by the Board". Shall section 24 carry?

Mr. JACKMAN: This gets us back to the definition section and the definition of resident and non-resident which, I am sorry to say, I think we did not thoroughly exhaust although I should not like to say we hurried over it. That definition of "resident" seems to embrace people outside of Canada as I recall. First of all if a person does remove himself he cannot become a non-resident except by determination made by the board under the authority of this Act. Then there were certain other matters there. Under "securities" the board is to have control of securities regardless of the place of registration, if any, of such securities or the situs of such securities or of any certificates or other instruments representing the same, or the location of the head office of the society, syndicate, company, or corporation.

Mr. RINFRET: That is not on section 24.

The CHAIRMAN: Section 24 simply says that the board may by regulation designate currencies that may be received or paid.

Mr. JACKMAN: I am sorry; I am on the wrong section.

The CHAIRMAN: Section 24 is carried. Section 25 is property, sale by residents of goods to be exported. I think that has been fully explained as to the reason why it is in there in order to assure bona fide transactions.

Mr. HAZEN: Mr. Chairman, I suggested to the board that it might be "interesting"—and the word I think I should have used is "instructive"—if the Department of Justice would file with this committee, or a member of the Department of Justice would come before the committee and explain to us the

department's reasons for coming to the conclusion that this Act comes within section 91 of the British North America Act. I think at the time I brought that up—

The CHAIRMAN: We will come back to section 25.

Mr. HAZEN: —I suggested that something should be done about that.

The CHAIRMAN: We will come back to section 25.

Mr. TARR: I may say that after Mr. Hazen raised the point I was in touch with Mr. Varcoe who undertook to write to you—

The CHAIRMAN: I have not yet received it.

Mr. TARR: —giving the opinion of the department. I understand the letter has been prepared. I thought you would have received it.

The CHAIRMAN: Section 25 stands.

*By Mr. Hazen:*

Q. There is another question I might ask about it now. I should like to revert to the farmer we were talking about the other evening. The question I want to ask is this. If a Canadian farmer sells his farm here with the intention of going to the United States and is permitted by the United States authorities to enter that country how much capital is he allowed to take with him?—A. The answer to that, Mr. Hazen, is that he would apply for a change of status to be recognized as a resident of the United States instead of a resident of Canada. Without any particular reason for going, there is what you might call an exemption applied by the board to the extent of \$5,000. Anyone could go to the United States without any particular reason and transfer capital to the extent of \$5,000. If the amount were larger, then it would be considered in the light of the policy regarding change of status from time to time.

Mr. JACKMAN: But that \$5,000 is purely in the discretion of the board?

Mr. RINFRET: No.

*By Mr. Jackman:*

Q. Is that a statutory right?—A. No. It is within the discretion of the board. I thought Mr. Hazen was asking me what policy would be applied at the present time.

The CHAIRMAN: Section 25 stands.

Mr. JACKMAN: May I ask this question? He can get that \$5,000 right away. Of course, that is not enough to set him up as a farmer in Massachusetts or Vermont or wherever he wants to go. Can he get more the succeeding year under the present policy?

The CHAIRMAN: Section 26.

The WITNESS: I have not answered Mr. Jackman's question yet, Mr. Chairman.

The CHAIRMAN: All right.

The WITNESS: He would be given no undertaking from the board that he could get further amounts in a later year. If he applied later and it appeared that he had in fact settled permanently in Vermont, then as I said the other day in reply to a similar question, the board may recognize that his status had in fact changed and allow an additional amount of capital to be exported.

*By Mr. Jackman:*

Q. If the board does accept his status in the United States as a resident and with domicile there, what change does that make under the present Act in regard to his property back here? How much better off is he in dealing with

his Canadian property as a recognized resident of the United States than he is before the board recognizes him as a resident?—A. As a resident of the United States he would be free to export any securities that he might hold from Canada and sell them on the American market.

Q. Even if they were American securities, he could do that?—A. Whether they were American or Canadian securities, as a resident of the United States he would be free to withdraw his securities physically from Canada. If he had any Canadian cash balances in the form of bank deposits, he would be free to dispose of them through the unofficial exchange market by selling them to another non-resident and consequently converting them into United States funds.

Q. That again is discretionary with the board. There is nothing legislative in the Act yet to give him that right, or to give him that as of right. It is a discretion with the board?—A. Those policies I have described are policies which have been consistently applied from the very beginning of the administration of exchange control, but they are not written into the legislation.

Mr. JACKMAN: I think Mr. Macdonnell did ask, Mr. Chairman, that at least a minimum be written into the Act so that an individual had it as of right. As Mr. Rasminsky says, it has always been the policy of the board; and I think that is one of the matters that was to be disposed of.

The CHAIRMAN: That is one of the matters we reserved. Section 26 has been thoroughly canvassed, gentlemen.

*By Mr. Jackman:*

Q. May I ask Mr. Rasminsky how large, in relation to the official United States exchange market, is the unofficial market in Canadian dollars? I just want an estimate.—A. It is very narrow, Mr. Jackman. If one takes into account all our transactions with all parts of the world, the unofficial exchange market would, I think, not account for as much as 2 per cent of our total financial transactions with non-residents. If you take transactions with the United States alone, then you would get a somewhat higher percentage, but it would still be quite a minor fraction of the total exchange market.

Q. If you were to take the transactions on the unofficial market in the United States to represent capital transactions as against the strictly capital transactions to which the board gives approval here, would it be a substantial percentage or not? When you take the merchandise transactions undoubtedly your total is greatly swollen.—A. Yes.

Q. Would it be substantial? Just give me a guess.—A. Of course, one would get a higher figure if one expressed unofficial exchange transactions as a percentage of the total capital transactions; but it still would be the case, I think that the bulk of the capital transactions which take place, take place through the official market and not through the unofficial exchange market.

The CHAIRMAN: Section 26 has been very thoroughly canvassed before. Shall section 26 carry?

Some Hon. MEMBERS: Carried.

Mr. JACKMAN: May I ask a question in connection with section 25 (c)?

The CHAIRMAN: We are not on that. That stands.

Mr. JACKMAN: Yes. But we let it stand for a particular enquiry, did we not?

The CHAIRMAN: Oh, well, if it stands, it stands. Section 26 has already been fully discussed from every possible viewpoint. Shall section 26 carry?

Carried.

Then section 27.

Mr. JACKMAN: It is hard to read them that quickly.

Mr. RINFRET: You should have read them before.

Mr. JACKMAN: I have probably read them more often than you have.

Mr. RINFRET: That is possible.

Mr. LESAGE: Carried. I think the members of the committee should have read the sections before this.

The CHAIRMAN: Oh, Mr. Jackman has read this section many times. Is section 27 carried?

Some Hon. MEMBERS: Carried.

Mr. JACKMAN: The point I am raising there is that in a number of these sections we seem to be taking jurisdiction over non-residents. Under section 27, for instance, subsection (2) we find:—

- (2) No non-resident shall, except in accordance with a permit  
(a) sell any securities in Canada or for delivery in Canada;

Mr. MARIER: It is for our own citizens.

The CHAIRMAN: It says that no resident shall.

Mr. JACKMAN: No non-resident shall.

The CHAIRMAN: No resident shall.

The WITNESS: If you look at section 26, subsection 2, you will find that it reads:—

No non-resident shall, except in accordance with a permit, (a) sell any securities, in Canada or for delivery in Canada or (b) purchase, acquire or accept delivery of securities in Canada from a resident unless a permit has been granted to the resident authorizing the sale, transfer, assignment or delivery of such securities to the non-resident.

Mr. JACKMAN: That is controlling the resident. That is quite all right, but under section 27, subsection 2 it clearly says no non-resident shall.

Mr. RINFRET: That is what Mr. Rasminsky just read.

Mr. LESAGE: That is what he read.

Mr. RINFRET: He made the wrong reference to section 26. He was reading from section 27, was he not?

The CHAIRMAN: Yes, he was.

The WITNESS: These transactions do take place in Canada, Mr. Jackman.

Mr. JACKMAN: That gives us jurisdiction over them except that many transactions take place on the telephone from the United States with Canadians.

The WITNESS: It is regarded as essential for the effective administration of this provision that there shall be jurisdiction against a non-resident who comes into Canada and physically sells securities for delivery in Canada.

*By Mr. Jackman:*

Q. If he comes into Canada I can see that, but he does not need to come into Canada. It is as simple as telephoning from here to Montréal.—A. Even if he does only that it is regarded as essential for the attainment of the objectives sought that there shall be jurisdiction against a non-resident who causes securities to be sold in Canada.

Q. How do you enforce it? How do you exercise any sanction against him?

Mr. TARR: You only can if he is physically in the country.

The CHAIRMAN: Or in regard to the registration of the securities. That is in section 28, the very next section we come to. ●

Mr. JACKMAN: Lots of transfer offices are in New York.

The CHAIRMAN: Section 28. Shall section 28 carry?

Carried.

Section 29.

Mr. HARKNESS: There is one thing under section 28. Why is the last paragraph of that necessary? Why should the board refuse to recognize the change of address of a person from Italy to Mexico, for example?

Mr. IRVINE: Scarcity of houses.

The WITNESS: The board would not in point of fact refuse to. This merely gives the board the power to refuse to recognize a change in registration from a resident of one country to a resident of another. An important reason for asking for that power is as a measure of co-operation with the sterling area exchange controls. Let us take the case of a Canadian security some of the shares of which are registered in the name of a resident of the United Kingdom. If that resident of the United Kingdom quits the United Kingdom contrary to the laws of that country and removes himself to the United States this would give power to refuse to recognize that change of address. The power is important not only as a measure of cooperation with the United Kingdom exchange control authorities but also the point of view of Canada's own interest in the matter. Because so long as that security is registered under a United Kingdom address the dividend payments are made in the form of sterling which serve to increase the British purchasing power in Canada. If the securities are registered under a United States address then under board regulations the dividends would be convertible into United States dollars and would represent a drain on Canada's United States dollar resources. The same would, of course, apply to maturities of such securities and eventually to sales of the securities if sales were permitted.

*By Mr. Jackman:*

Q. Under section 28 (2) it says:—

The board may by regulation prohibit or impose conditions upon (a) the transfer or registration of any transfer of Canadian securities between non-residents.

Some of our Canadian companies like International Nickel and the banks, I believe, have registration and transfer offices in New York city. How does the board exercise jurisdiction over transfer there between non-residents? Have you sought to do that yet? Suppose two Americans hold International Nickel or better, a strictly Canadian stock like Royal Bank. Have you any right to impose restrictions there?

The CHAIRMAN: You refer to 2(b) which reads:—

(b) The transfer of Canadian securities to a register in Canada from a register elsewhere or between registers outside of Canada.

The WITNESS: We have no power over transfer agents outside of Canada. They are beyond the jurisdiction of this measure.

*By Mr. Jackmans*

Q. You cannot exercise power through the head office in Canada on their transfer agency in a foreign jurisdiction?—A. We have not sought to do so, but—

*By Mr. Hazen:*

Q. In 2 (b) you say, "or between registers outside of Canada." Have you made an attempt to do so there? I do not know how you could possibly do it but is that not what you are proposing to do by those words?

The CHAIRMAN: 2 (b).

The WITNESS: Mr. Hazen, this applies, of course, only to Canadian companies. The cases contemplated in the words you read out are cases where transfer from one transfer agent outside of Canada to another transfer agent outside of Canada had to be effected through the intermediary of the head office in Canada. It applies only to the head office in Canada or transfer agents in Canada; those are the only people over whom the board would be able to exercise any jurisdiction.

The CHAIRMAN: Section 29, board may require residents to bring securities into Canada.

Mr. HAZEN: What is the penalty provided if a person refuses to bring securities into Canada?

Mr. LESAGE: Section 60.

The WITNESS: Under section 60, subsection 2,

- (2) Every person guilty of an offence under this Act for which no penalty is provided under subsection 1 of this section shall be liable, on summary conviction, to a fine not exceeding \$2,000 or to imprisonment for a term not exceeding twelve months or to both such fine and such imprisonment.

The CHAIRMAN: Shall section 29 carry?

Carried.

Mr. JACKMAN: I have another question I want to ask in relation to section 28. These things are all very complicated. I am sorry to take up so much time of the committee but I do not know how we can get a thorough understanding of the workings of this Act and find out whether it is as good an Act as we should have unless we can get some of these details. As the witness said the board cannot exercise jurisdiction over transfer offices in another country.

The CHAIRMAN: Except through head office.

Mr. JACKMAN: I realize that, but what is to prevent a person removing himself to the United States and before he does so buying all the sterling he wants, which the board is only too willing to sell, and using that sterling to purchase C.P.R. stock on the London register, and then after he removes himself to the United States asking that his stock—if the English regulations will allow him to—be sent over to the United States and transferred to the American register where he is perfectly free to deal with it? In that way he has his capital in the United States and he has not violated any rules or regulations of the board in Canada.

The WITNESS: You have yourself given the answer to the question, that the British regulations would not permit him to do it. So far as the initial transaction is concerned, the purchase of sterling from the board, that is perfectly within his rights as a resident of Canada, but I believe that at each subsequent stage of the transaction as you outlined it he would come into conflict with a regulation under the United Kingdom defence finance regulations.

The CHAIRMAN: Section 29, board may require residents to bring securities into Canada. Shall that carry?

*By Mr. Harkness:*

Q. It seems to me that section 29 is pretty drastic. I would also think it would operate so as to discourage people with assets abroad from moving into this country. In other words, probably a lot of prospective better class immigrants would be discouraged from moving into the country because as soon as a man gets here and becomes known as a resident then he may be forced to bring all his assets here. It seems to me that it is a pretty drastic power to take.

*By Mr. Hackett:*

Q. Was that power not exercised during the war over all bank accounts elsewhere? People had to bring them home?—A. That was the power under the foreign exchange acquisition order of May, 1940, which did require persons in possession of foreign currency bank balances to sell them to a bank in Canada. There have been very rare occasions when the board has had strong reasons to believe that a breach of the foreign exchange control order was contemplated or had been committed by someone whose securities were physically located outside of Canada on which the board has in the past required those foreign securities to be brought physically to Canada. There have been a very few cases where that has been done. It is a protective clause which it was thought desirable to have but which would not normally be used. It would give the board some protection against cases of that type.

*By Mr. Harkness:*

Q. Do you think it is necessary now that we are in a period of peace?—A. Yes I think, on the assumption that this measure is necessary, that a clause of that sort is necessary to obtain effective enforcement of the measure.

The CHAIRMAN: Shall section 29 carry?

Carried.

Section 30, Governor in Council may require residents to report ownership of foreign securities.

Mr. HACKETT: That is the same idea.

The WITNESS: That is merely reporting.

Mr. JACKMAN: I just wish to put on the record that whereas the acting minister of finance said there was nothing under this Act to compel one to vest one's securities nevertheless these two clauses, 29 and 30, do compel information and also the physical importation of the securities, which is the next thing to vesting.

The CHAIRMAN: Very close. Shall section 30 carry?

Carried.

Section 31, Transfer by resident to non-resident. Shall section 31 carry?

*By Mr. Hazen:*

Q. I should like to ask why the trust is restricted to a trust under a will?—A. To what section are you referring?

Q. Section 31 (1) (a).

Mr. LESAGE: It is equivalent to a transfer of property.

Mr. TARR: If a resident could during his lifetime place in trust for a non-resident any property in Canada it would really have the same effect as an outright transfer of it to him.

Mr. HAZEN: It would all depend on the terms of the trust. It would not necessarily be an outright transfer of property.

Mr. TARR: That section merely states that no resident shall, except in accordance with a permit, place in trust for a non-resident. Property under a will willed to a non-resident is permitted to be transferred. In many cases we have given the necessary permit under similar provisions to this with respect to establishing a trust in favour of a non-resident that would only vest property in a non-resident at the time of the death of the person who placed the property in trust, which is equivalent really to a trust created under a will.

The CHAIRMAN: Shall section 31 carry?

Mr. HACKETT: Just a moment. I was trying to find out exactly what is behind section 1 (a). A disposition by a will is beyond the control of the section; is that it?

Mr. TARR: A resident of Canada needs no permit from the board in order to give property to a non-resident under a will.

Mr. JACKMAN: This section it seems to me quite innocently runs against the example I gave some meetings ago of where a grandmother makes a distribution of assets at Christmas time to her grandchildren, some of whom are resident in the United States, and she automatically constitutes one of the relatives in Canada as trustee pending the time when a permit for export may be given.

The CHAIRMAN: Should we amend section 60 and say that no grandmother shall be punished under that section?

Mr. JACKMAN: Sometimes you get a principle even from a grandmother if you listen carefully. What I am suggesting is that there are penalties under the Act and yet here is a perfectly innocent transaction of an elderly woman who gives presents to her grandchildren, and because the securities are not immediately exportable, or no application has been made to the board for a licence, someone in Canada is constituted trustee. It may not be by formal document, but they have the securities and are holding them in trust for the grandchildren in the United States. Yet that is a clear violation of section 31. I am not going to suggest that the board is going to enforce the penalties, but I do not think that people should be compelled to break laws innocently if the board does not require all these powers.

The CHAIRMAN: How would you suggest that section should be worded so as to protect the board and have an enforceable exchange Act controlling dealings in foreign securities? How would you suggest that section 31 should be amended so as to protect these innocent offenders?

Mr. JACKMAN: I do not know, but I am very interested in the innocent offenders.

The CHAIRMAN: You should judge the board by its performance in the past, I would suggest. I have no knowledge of any innocent offender being prosecuted or even threatened.

Mr. JACKMAN: I have not either, but it is not pleasant for a citizen to feel he has violated the law, and he might be not only prosecuted but persecuted.

Mr. HACKETT: Let us take an instance of a man in the United States and somebody wishing to go bail for him. I take it under this section he would not be able to put up either currency or export securities for that purpose?

The WITNESS: I do not know whether it would be under this section or under some other section, but he could not put up bail in the form of cash or securities without a permit from the board. That is right.

*By Mr. Hackett:*

Q. Would the board have the power to enable him to do that?—A. Oh yes, there is no question of that; Section 31 (1) reads:—

“No resident shall, except in accordance with a permit”, do various things. All the operative provisions are drafted in terms of permits being required. I do not think that there is a single type of transaction which this measure itself prohibits.

Q. That is all I want to know.

*By the Chairman:*

Q. Do you know any way, Mr. Rasminsky, in which Mr. Jackman's question could be met of a person quite innocently setting up a trust simply for the purpose of making a property division among members of the family and with

not the slightest intention of attempting to violate the provisions of any foreign exchange requirement.—A. Apart from the courts, the only protection I know of against arbitrary action on the part of the board in persecuting or prosecuting innocent people is to have a management of the board in which you have confidence.

*By Mr. Jackman:*

Q. May I ask again just why this board must have this clause against placing in trust for a non-resident? I think you did mention it at the beginning. It constitutes a sale or something.—A. The placing of property in trust constitutes an alienation of assets from the Canadian economy to a foreign economy if the trust is created on behalf of a non-resident.

Mr. JACKMAN: Physical possession of the securities, of course, is still here.

*By Mr. Hazen:*

Q. If I place a certain sum of money in trust, or if a man living in Ottawa places a certain sum of money in trust to pay income to his mother who is an old lady living in the United States, and it is provided that on her death it shall go to a charitable institution here, is there anything objectionable about that?—A. That is not prohibited under this section.

Q. Yes, it is. It requires a permit.—A. Yes, it requires a permit.

Q. Yes. Is there anything objectionable about that?—A. I doubt whether it would be possible to define in the legislation the types of transaction of this sort which are unobjectionable.

Q. What I am trying to get at is this. What types are objectionable and what types are not objectionable?—A. The types which are objectionable are those which have the effect of constituting an export of capital which is against the government's export policy at the time.

Q. Is it necessary to have such broad words to cover that objection?—A. The creation of a trust in favour of a non-resident might be done intentionally and deliberately as a method of evading exchange control regulations.

The CHAIRMAN: Shall section 31 Carry?

Carried.

Section 32—services performed by residents for non-residents. Shall section 32 carry?

Mr. HARKNESS: No. This is another of those sections that I really cannot see the reason for. I personally would have been guilty of an offence under this except for good fortune, if the thing had been operative a few months ago. For example, just before I came back from England 14 or 15 months ago, I made an arrangement with a friend of mine to look after the leasing and if possible the sale of a large house and a small garage on the outskirts of Victoria. I was going to do that for him completely free of charge, of course. According to this, I would not be permitted to do that without getting a permit or something else.

The WITNESS: I do not think that is right. The section reads, "No resident. . . shall perform. . . for a non-resident any services of a kind ordinarily performed for remuneration." I would assume that you would ordinarily have performed those services for your friend without remuneration.

Mr. HARKNESS: That is the kind of service that is ordinarily performed for remuneration; if anybody arranges a lease or arranges for a sale of real estate, he is usually remunerated for it. As a matter of fact, I think the general rate is 5 per cent.

The CHAIRMAN: What was to become of the funds, Mr. Harkness, if you performed this task?

Mr. HARKNESS: He wanted to leave the funds here in Canada, if possible.

The CHAIRMAN: Then you did not offend.

Mr. HARKNESS: Oh, yes. I performed the services for him.

The CHAIRMAN: But you did not remove the funds.

Mr. HARKNESS: As a matter of fact, he got a lease entered into by other means before I got home.

Mr. IRVINE: Is that not the very reason why the Act should be as it is? It would be against the principles of the Act if it was done.

Mr. MARQUIS: Is it necessary to have the word "ordinarily"?

Mr. IRVINE: Yes.

Mr. MARQUIS: Would it not be better to eliminate that word and have it read "of a kind performed for remuneration"?

Mr. RINFRET: No.

Mr. LESAGE: Is it not a matter of good or bad faith transactions? That is the point.

The WITNESS: If I may come back to Mr. Harkness's case, in point of fact under the present Foreign Exchange Control Order there is exemption from the operation of a similar provision in respect of various types of services, including any services performed for a resident of the sterling area. So that there is no question as to whether you were even technically in default of this particular provision.

Mr. HARKNESS: I just used that as an example of, as far as I can see, how this thing would work out; and also as a reason why it does not look to me as a very reasonable and necessary provision.

*By Mr. Lesage:*

Q. Is it not put in to avoid bad faith transactions?—A. Yes. The reason for this provision is that capital could be exported via the performance of services. If, for example, a person performing services in Canada did perform them on behalf of a non-resident and arranged with that non-resident to make payment to him in the United States or in some other country, in that way he would have succeeded in exporting his capital from Canada through the performance of services in Canada on behalf of a non-resident.

*By Mr. Harkness:*

Q. There is no actual export of capital there. What happens is that a resident of Canada has acquired assets abroad through performing that service, and I do not see why there should be any restriction on acquiring assets abroad.—A. That is exactly equivalent to the export of goods without the export proceeds being put at the disposal of the Canadian economy.

Mr. HARKNESS: After he has acquired those assets, under this other provision you can then force him to move them back to Canada. So that I still do not see the necessity for this section.

The CHAIRMAN: Do you see any harm in the section?

Mr. HARKNESS: Yes. I think it is a needles piece of red tape.

Mr. IRVINE: I do not think it is. I think if this was taken out, a lot of people might be doing services for people who wanted to transfer their property.

Mr. JACKMAN: How many?

The CHAIRMAN: Shall section 32 carry?

Mr. JACKMAN: Mr. Chairman, these sections all through the bill, particularly the ones we are at now, do seem to me to be an unwarranted incursion on the ordinary rights and liberties of the citizen. Let me give you an example. Suppose an American citizen wishes a Canadian to administer a million dollars worth of assets for him. The assets may be in Canada or they may be elsewhere.

The CHAIRMAN: Order, gentlemen.

Mr. JACKMAN: Naturally the Canadian gets a fee for it. Apparently he cannot enter into such a contract unless he first goes to the board and asks for a permit, which I suppose would be granted without much trouble. But it is one of those things which complicate life all the time; it takes up one's time and is a nuisance. It seems to me that a great many people in Canada look upon United States and Canadian economy as one, and do not look upon the Canadian economy as a closed economy. The person doing the work for the American must get paid within six months and he must get paid in the currency designated by the board as acceptable for such transactions. It seems to me that a person should be allowed to render a service such as that to the American if he wants to; because naturally it makes more work in Canada for people and builds up our economy. But here you have to go to the board and find out if they will allow you to do it. To my mind it affects many of our citizens in an adverse way.

As far as the board is concerned, if an individual in Canada wants to violate the regulations, it is not very difficult to make arrangements with the American that he shall be paid so much in Canada, either in American or Canadian currency, by permit of the board and whatever requirements are necessary, and still get money in United States funds unknown to the board, if people want to do those things. But my contention is that Canadians must be taken to be honest unless they are proved to be dishonest. I do not feel that this section is one which would even at the very worst cost the board any very substantial amount of money; but I do feel that it is another one of those nuisances to people who are engaged in financial transactions between the United States and Canada, and are administering funds for Americans. It is nothing short of a substantial nuisance, and I doubt whether the value to the board is such that it is worth while for it to be put in. The case mentioned, I think, is one very much in point. If you make a contract with an American to administer one million dollars for him and get a fee for it, you must go to the board and get their consent to it.

The WITNESS: Mr. Jackman, would you be good enough to point out what section requires that you go to the board for their consent?

Mr. JACKMAN: Section 32 says you cannot do it except in accordance with a permit. You cannot render the services to, let us say, an American unless you get paid within six months for those services and in currency designated by the board as acceptable.

Mr. LESAGE: That is not what the section says.

The CHAIRMAN: Shall section 32 carry on division?

Mr. LESAGE: You skipped one of the most important words of the section.

Mr. JACKMAN: Am I misreading it?

The WITNESS: Yes. It is not the case that in the transactions that you have mentioned it is necessary for anyone who is administering this fund for the resident of the United States to go to the board for permission to do it. All this section says is that if he does administer a fund and if that is a service that is ordinarily performed for remuneration, he shall be paid for his services within six months and in an appropriate currency, unless the board dispenses with or relieves him of that obligation.

Mr. MACDONNELL: May I ask one general question, Mr. Chairman? I think it might save time—

Mr. IRVINE: Then ask it, brother; ask it by all means.

Mr. MACDONNELL: It will not take long to ask and I think it might save time for those of us who have certain questions about the bill if we know whether it is very definitely the intention of those who are supporting the bill to approach it from what I understand must have been, and very naturally was, the point

of view of those who drafted it, which I take it to have been—correct me if I am wrong—that they set down very carefully and meticulously the various things which they found to be necessary as safeguards in wartime. Would that be a fair statement of the way it was performed? Some of us, I think, would like to ask questions particularly when we come to the penalty clauses; I will question a good many of those. But on the other hand I think it might save time if we know whether really the thing as it stands is virtually based on that point of view. I for one do not propose to take up much time of the committee; we can have our say when we go back to the House. My feeling about it is exactly the same as Mr. Jackman's and I am not going to take your time up now; but I think it might save your time on future sections if I knew whether that was, in fact, the position. I can understand that many of these things were necessary in wartime. I wish it were possible to make this committee believe we could now begin to dispense with a lot of them; but if it is not, I am not going to waste time.

Mr. IRVINE: Does not the question arise then whether we accept the principle of this bill as to the things we want to achieve; and then second, whether these clauses are essential to carrying out that idea? Then the question arises, is there a clause here that is not necessary to carrying out that idea? If so, what is it? Let us get down to that and get on with it, because we will be here forever if we do not get on.

Mr. LESAGE: It involves the question, is the bill necessary?

Mr. HARKNESS: Mr. Chairman, I have not heard any reason advanced so far that has appealed to me, at least, as to why this section 32 is necessary to the carrying out of the bill. As a result of that, I would therefore move that it be deleted.

The CHAIRMAN: Are you ready for the question?

Some Hon. MEMBERS: Question.

Mr. HAZEN: Might I ask a question about section 32 in order to get it clear in my mind. As I read it, a person cannot perform a voluntary service for a non-resident unless he gets a permit from the board. Am I right in that?

The WITNESS: Subject to two things, Mr. Hazen: (1) that the service is of a kind ordinarily performed for remuneration and (2) subject to the exemptions that will be made by regulation. The exemptions which have been made by regulation from the operation of an exactly similar provision in the foreign exchange order are the following, and I am reading from section 27, subsection (1) of the Foreign Exchange Control Order:—

... provided, however, that this section shall not apply to

- (a) any services performed in Canada for or on behalf of any non-resident visiting Canada otherwise than for reasons of convenience, or
- (b) any services performed in Canada for the personal comfort or convenience of any non-resident temporarily visiting Canada, or
- (c) any service performed for residents of the sterling area, or
- (d) the use of property in the sterling area by residents of the sterling area.

There are two points that are involved in this section. One of them I have already referred to; that is the desire to safeguard against the possibility of the illicit export of capital through the performance of services for a non-resident. It was thought that all residents of Canada should be treated alike and that no special exemption from the operation of the exchange control should be given to those who performed services as compared with those who are engaged in the import and export business, for example, or in the security business. The second reason relates to the designation of the

currency. It was thought desirable, on the assumption that an exchange control measure was needed, that the performance of services by Canadians for residents of the United States should not result, for example, in payment in the form of some blocked currency which was of no use to the Canadian economy, or possibly in the form of Canadian dollars acquired through the unofficial exchange market or in some other form that did not result in United States dollars being placed at the disposal of the Canadian economy.

The CHAIRMAN: Shall section 32 carry?

Some HON. MEMBERS: Carried.

The CHAIRMAN: Section 33, other transactions between residents and non-residents.

Some HON. MEMBERS: Carried.

The CHAIRMAN: Shall section 33 carry?

Some HON. MEMBERS: Carried.

Mr. MACDONNELL: Why is it needed in addition to section 26?

Mr. HAZEN: Carried on division.

Mr. HARKNESS: No, Mr. Chairman; I moved that section 32 be deleted.

Some HON. MEMBERS: Question.

The CHAIRMAN: Are you ready for the question?

Some HON. MEMBERS: Question.

The CHAIRMAN: All those in favour of taking out section 32 will signify in the usual manner. Those opposed?

Motion negatived.

Shall section 32 carry?

Carried.

Section 33. Shall section 33 carry?

Carried.

Section 34. It is simply mopping up the other. Is that carried.

Mr. JACKMAN: No. We have not even had time to read it.

The CHAIRMAN: It is simply mopping up.

Mr. JACKMAN: It is too bad if we have not time to read the marginal note.

Mr. MACDONNELL: Mr. Chairman, I did ask and you did not hear me, if we could have an explanation of why section 32 is necessary in consideration of the broad powers under section 26 and the other sections. Could we just have a brief explanation? Just on the face of it, section 26 seems to me to be so very broad.

Mr. LESAGE: And section 25.

Mr. MACDONNELL: Sections 25 and 26.

Mr. MAYHEW: Section 25 has not been passed.

The CHAIRMAN: Section 25 stands for the opinion of Justice. Is section 34 carried?

Mr. JACKMAN: Under section 34, if a Canadian owns a branch plant in the United States, apparently the board is going to insist, according to this, on him paying out all the earnings that the company can possibly stand. That is entirely a matter of management. They may wish to leave the funds there to allow the company to grow and do a larger business; but under this section the board may compel him to produce his statement.

The CHAIRMAN: Order, gentlemen.

Mr. JACKMAN: The board may compel the Canadian who has a branch plant in the United States to produce his statement and to declare all the current earnings which are available, leaving nothing for the building up of the company in the United States. It seems to me to be an unwarranted incursion into the rights of an individual.

Mr. RINFRET: It is not compulsory on the board.

Mr. JACKMAN: It is compulsory on the individual.

Mr. RINFRET: If so required by the board. The board might not act at all.

Mr. JACKMAN: What I am suggesting is that the individual should have it as of right to leave his money there if he wishes.

The WITNESS: The thought behind this section is that the—

*By Mr. Irvine:*

Q Which section are you dealing with now?—A. Section 34.

Mr. LESAGE: Is 33 carried?

The CHAIRMAN: Yes.

Mr. LESAGE: 33(b) looks exactly the same to me as 26(b). I do not see why it is necessary to have section 33(b). Mr. Rasminsky might explain it to us.

The WITNESS: I think the case contemplated in 33(b) is the obverse of the case which is contemplated in section 32. In section 32 we are concerned with residents performing services on behalf of non-residents. We are concerned they should receive payment in the appropriate currency. In section 33(b) we are concerned with payments which residents make to non-residents for services which the non-residents perform on their behalf.

Mr. LESAGE: That is also the case in section 26(b).

The CHAIRMAN: No, the reverse.

Mr. LESAGE: 26(1)(b) is:—

Being a resident, either in Canada or elsewhere purchase or agree to purchase from a non-resident any goods which are to be imported into Canada on terms providing for payment to a non-resident of a price greater than the fair value thereof—

and so on.

The WITNESS: 26(b) is concerned with goods and 33(b) is concerned with services.

*By Mr. Lesage:*

Q. With property?—A. Property or services.

Mr. IRVINE: Services involving property.

Mr. HAZEN: Could I have section 33, subsection (c) explained?

Mr. IRVINE: Have we carried it?

The CHAIRMAN: We have carried it, but the point has been opened so go ahead.

*By Mr. Hazen:*

Q. No resident shall, except in accordance with a permit, either in Canada or elsewhere (c) release or fail to take reasonable steps to acquire or recover from a non-resident any property or any right, title or interest in or to any property to which the resident is or may be entitled.

Just what do those words mean?—A. They are another example of an action which could be performed by a resident with the effect of obtaining funds in the

form of foreign exchange which he could not obtain under the exchange policy of the government. If a resident owned a right to property which was located abroad—

Q. "or fails to take".—A. And fails to take reasonable steps to enforce that right—

Q. Without a permit of the board?—A. Without a permit of the board then he might come into possession without that permit of his rights in a property, which might be a sum of money, without being under any obligation to place that sum of money at the disposal of the Canadian economy by selling it to a bank in Canada.

*By Mr. Macdonnell:*

Q. Has that case often arisen?—A. No, I do not think it has.

Q. Has it ever arisen?—A. Whether this particular case has arisen?

Q. Yes.—A. A typical case would be a resident who received a bequest in a will of a non-resident, who was left say \$100,000. That would be a right, title, or interest in property, and if he failed to take steps to enforce that it would in effect amount to an export of capital from Canada.

*By Mr. Jackman:*

Q. Canada never had the capital?—A. It would deprive Canadian economy of that amount of money.

Q. Which it never had?

*By Mr. Rinfret:*

Q. He will have to have a permit not to do anything?—A. He would require a permit to fail to enforce his rights.

Q. To stay quiet about his rights.

The CHAIRMAN: Section 34, gentlemen. I cannot see anything wrong with that.

Mr. JACKMAN: It is so easy. A testator or testatrix in the United States merely leaves a bequest in American money in which case you have no legal right to it in Canada. A lot of these sections are very easily defeated if people know about them. It seems to me they should not be there because they are nuisance sections. Here is a section which says that if an American leaves money under a will to a Canadian the Canadian may not take steps to enforce payment of it to him in Canada. If he does not want the money in Canada all he needs to do is tell the American testator who is looking after the matter to leave those moneys in the United States in which case he has no right to it in Canada. Is that not right? You have no legal right to it in Canada?

The WITNESS: I think the same question is involved in all of these sections that are under discussion now. The question is do you want an effective system of exchange control or do you not?

Mr. JACKMAN: Do you want freedom of the individual or do you want state control? I am for freedom of the individual.

Mr. RINFRET: We gathered that.

*By Mr. Jackman:*

Q. Let me ask Mr. Rasminsky if the suggestion I made is not one which would successfully prevent this section of the Act being enforced? It would defeat the purpose of the Act if the money is left in the United States under certain conditions. The person goes to the United States and claims it. He has no right to it in Canada.—A. I do not suppose there is one section of this Act or any other statute that cannot be evaded in some way or other, but I do not know what inference one should draw from that fact.

Q. The inference is if it becomes a hardship on people they will see to it that the regulations are not effective and that they have it as people wish it and not as you wish it.

Mr. BREITHAUP: Carried

The CHAIRMAN: Is the section carried?

Carried

We come now to a group of sections on which I think we can all agree, the powers of the board. Section 35.

Mr. MACDONNELL: My feeling about these powers is that we are going on the basis of the old story, one toot and you're oot. As far as I am concerned I am very sorry they are in there. I mean the broad ones permitting people to be arrested without warrant and all the various things that are there, but I am not going to take the time of the committee to discuss them in detail. I am just going to make one point, and I make it very earnestly. I just ask people to read those sections imagining to themselves that the people enforcing them are not the present group of gentlemen represented by Mr. Rasminsky who has been very patient even when we were most troublesome to him. Suppose we had people there whom we did not like and you have a very different attitude on the part of those people in administering this. Just let us ask ourselves if we would give them these perfectly astounding powers including all kinds of things we never would dream of giving before the war. I am going to make no great objection because I take it that it is more or less obiter dicta here, and I do not think there is any point in wasting our time and Mr. Rasminsky's time, but I certainly propose when it gets to the House to do my very best to bring it to the attention of the people of Canada and the business community who have been very careless about it, as I see it.

I feel that it is worth while for us to ask ourselves that question. Suppose these powers were going to be administered by a group of people, as they might some day, whom we did not regard with the same feelings that we do these gentlemen, and ask ourselves whether we want these astounding powers which were devised entirely for wartime and comprise things we never would have dreamed of before wartime. Yet now apparently we are going to take them calmly.

The CHAIRMAN: Sections 35 and 36 should be carried together. On division?

Mr. LESAGE: I should like to ask a question on section 36, subsection 2. I do not understand it. Are we to understand that a magisterial court has a right to establish the fair value of any property, debt, obligation, claim or service or that the question arises only if the board has not established it before?

Mr. MARIER: If the board has not decided.

The WITNESS: If the board has not determined the fair value then, as you say, the justice, magistrate or court can determine the fair value. If, however, the board has determined fair value then under a later section there is an appeal.

*By Mr. Lesage:*

Q. What section?—A. That is section 38. There is an appeal from the determination of the board to the court.

Mr. JACKMAN: I just wish to point out a matter which has been brought to the attention of the committee before. It has to do with section 35 (3) under which every regulation shall be laid before parliament within fifteen days after it is made or, if parliament is not then sitting, within fifteen days after the commencement of the next ensuing session thereof.

The CHAIRMAN: I have marked that "stand" for an amendment that the Hon. Mr. Abbott said he was going to bring forward. Is section 36 carried?

Carried.

Appeals; is section 37 carried?

Carried.

Is section 38 carried?

Carried.

Section 39, annual report. There is a similar amendment there. Subsection 2 of section 39 stands. Subsection 1 is carried. Section 40, board may appoint inspectors. Shall section 40 carry?

Carried.

Section 41, board and inspectors may conduct inquiries. Shall that carry?

Carried.

Section 42.

*By Mr. Fleming:*

Q. I have one question on section 41. Is this definition of the powers in any respect broader than those enjoyed at the present time by the board under the order in council?—A. No, they are considerably narrower.

Q. They are narrow?—A. Yes.

Q. In what respect?—A. Under the order in council the board has the power itself to make regulations—oh, I beg your pardon, are you referring to the section on inquiries?

Q. The powers of inquiry under section 41.

The CHAIRMAN: Inspectors to conduct inquiries.

Mr. TARR: Under the provisions of the present order any information obtained on inquiry may be used as evidence against the person from whom the information was obtained.

Mr. FLEMING: That is done away with now?

Mr. TARR: That is done away with under this Act.

Mr. FLEMING: Apart from that the right to hold inquiries is not abridged in any way?

Mr. TARR: No. The provisions for inquiries in here are the same as they are under the Inquiries Act.

Mr. HAZEN: I submit the powers given to inspectors under section 41 are altogether too wide.

Mr. JACKMAN: Hear, hear.

Mr. HAZEN: They read as follows:

The board or any inspector may conduct any inquiry or investigation into matters relating to this Act—

I do not object to that—

—and may require any person to furnish such information as the board or such inspector may deem necessary”.

I object to the words, “or such inspector”. The powers are placed in the board and if the board deems certain things are necessary then they should instruct the inspector to go ahead and take the necessary steps.

The CHAIRMAN: We will adjourn until 8 o'clock.

The Committee adjourned at 5.25 o'clock p.m. to meet again at 8 o'clock p.m.

The Committee resumed at 8 o'clock p.m.

The CHAIRMAN: Gentlemen, when we adjourned at 6 o'clock we were discussing section 41. Some members have raised a point as to the inspectors having power to exercise discretion in regard to information required. Would you care to answer that question, Mr. Rasminsky?

The WITNESS: If an inquiry is undertaken it is undertaken by an inspector of the board. It is difficult to see how the inspector could undertake an inquiry effectively if he were in the position where he had to obtain the specific authority of the board for any question that he put or for any information that he sought. The precise question that he put and the precise information that he sought to obtain would in many cases be determined by the course that the inquiry took. That is the reason why this clause is worded in this way authorizing the board or an inspector to conduct an investigation and to require any person to furnish such information as the board or such inspector may deem necessary. If it were not worded in that way it would appear that it would be necessary to adjourn the inquiry from time to time in order to enable the inspector to seek specific authority from the board to request further information.

Mr. MARQUIS: Is that inspector sworn specially for that investigation or is it in the course of his general duties?

Mr. LESAGE: General duties by virtue of section 40.

The WITNESS: That is right. I do not think it would detract from the effectiveness of this section to word it in this way, "The board or any inspector authorized by the board may conduct any inquiry", and so on.

Mr. LESAGE: As a matter of fact, any offence committed against any section of this bill or the orders and regulations is surely less important than a murder. Nobody would ever think of giving to an inspector of police investigating a murder case any power to summon and enforce the attendance of any person at any place and time and the power to examine him and require him to give evidence orally or in writing on oath. Nobody would ever think of giving to any police investigator or police inspector such powers in a murder case.

Mr. TARR: There are provisions practically identical with this in a number of Acts, the Customs Act, the Excise Act.

Mr. LESAGE: Just because those Acts have been passed and such powers have been given in other Acts is no reason why we should proceed that way here.

Mr. BLACKMORE: In what kind of Acts?

Mr. LESAGE: The Customs Act, The Excise Act, the Immigration Act. These provisions are in there, but I am wondering if we should have them here. It would be very easy to say "the board or any member of the board". I do not think we should go further in giving a judicial power to any individual. We are going far enough in giving those powers to any member of the board. Those are powers you give to a coroner.

Mr. MARQUIS: In subsection 6 of section 41 there is a proviso that the board or an inspector shall allow any person against whom any charge is made in the course of the inquiry or investigation to be represented by counsel. I understand that if somebody is charged by the inspector he shall be represented by counsel, but in the first part of that subsection I would suggest that there should be a correction. It has a relation to the first section as to the powers of the inspector. If the person who is questioned is represented by counsel perhaps he would be protected.

Mr. RINFRET: The inspector has the power to over-rule anything counsel says. What is the use of it?

Mr. LESAGE: What is the use of it, and moreover the inspector is the one who will decide if the accused has the right to counsel. After all he is only a customs inspector.

The WITNESS: I wonder whether that last statement is not made under a misapprehension as far as subsection 6.

*By Mr. Lesage:*

Q. "May allow".—A. "And shall allow any person against whom any charge is made".

Q. But it is "may allow a person whose conduct is the subject of an inquiry". At a coroner's investigation any person whose conduct is the subject of inquiry has the right to counsel, and an inspector of customs will be the man who will decide if such an individual has the right to counsel. Oh, no. After all we are not in Germany.

Mr. JACKMAN: Yes, we are.

Mr. TARR: Subsection 6 is identical with a similar section in the Inquiries Act.

Mr. LESAGE: I understand, but because an Act is wrong we should not have to follow it.

Mr. JACKMAN: I could embrace you all.

Mr. MARQUIS: I cannot go so far, but in the Inquiries Act you have commissioners specially appointed to investigate a matter. Here you have an inspector who has general powers. He will make inquiries and he will decide objections, and so on. Therefore, I think the wording should be changed in order that these inspectors should be appointed as sworn commissioners, and that people who may be brought before them will have the right to be represented by counsel.

Mr. TARR: I think there would be no objection to making that change in subsection 6.

Mr. LESAGE: What about the first change? What about giving the powers only to the members of the board?

Mr. MARQUIS: Is it possible?

The WITNESS: The members of the board are the office holders enumerated in one of the earlier sections, and I really do not think they are necessarily the most qualified persons to conduct an inquiry. I should like to suggest, if I may, that this particular section be laid over until the officers of the Department of Justice can consider the suggestions that have been made. As I understand it there are two suggestions which have been made. One of the suggestions was that this power of inquiry be given not to inspectors generally but to sworn commissioners appointed for the purpose. The other suggestion is that under subsection 6 the first time the word "may" occurs it should be changed to "shall".

Mr. LESAGE: I do not think we should have to go to the Department of Justice for the second one. I understand that it would be better to go to the Department of Justice on the first one.

The WITNESS: From the point of view of the administration of foreign exchange control I can see no reason why the word "may" should not be changed to the word "shall".

The CHAIRMAN: Shall section 41 stand?

Mr. JACKMAN: Let us change subsection 6 right away.

Mr. LESAGE: We do not need Justice for that.

Mr. MARQUIS: We need justice.

Mr. LESAGE: We do not need the advice of the Department of Justice for that.

Mr. TARR: I think if that change is made the whole subsection can be shortened down considerably.

Mr. MAYHEW: I would suggest that you leave the whole section in abeyance, and it will be easy enough to change the word to "shall" when we are dealing with it.

The CHAIRMAN: Subsections 1 and 6 in abeyance.

Mr. MAYHEW: Leave section 41 in abeyance.

The CHAIRMAN: Subsection 6 should be redrafted.

Mr. BREITHAUP: There are two suggestions. I think you might as well submit both.

The CHAIRMAN: Well, the committee appear to be reasonably unanimous that everyone whose conduct is subject to an inquiry should have the absolute right to counsel.

Some Hon. MEMBERS: Yes.

The CHAIRMAN: That would appear to be achieved by striking out the word "may" in the first line and by deleting the last three lines; because the first part of the subsection would then be all-inclusive and read: "The board or any inspector shall allow a person whose conduct is the subject of an enquiry or investigation to be represented by counsel."

Mr. MARQUIS: No, I do not think so. We should have the last part too because he may be subject to an investigation and no charge be made against him. The charge is laid afterwards. As it is here, he has not the right to be represented by counsel.

The CHAIRMAN: We will leave those two over. Then as to the keeping of records

Mr. JACKMAN: I wonder what we think of No. 7?

Mr. MARQUIS: The whole section to stand.

The CHAIRMAN: Shall I stand the whole section?

Mr. MARQUIS: Yes. I think you had better do that.

Section stands.

The CHAIRMAN: Section 42. Shall section 42 carry?

Mr. JACKMAN: No. Just a minute. Section 42 reads: "Every person carrying on business who engages in any transactions. . ." and so on. There are individuals, both corporations and individuals who deal in American securities. I am speaking not of brokers but just of ordinary people; and if they have a number of transactions the board may still consider they are carrying on business. Those people do not keep books of record beyond the amount of their income. This section seems to make it obligatory upon them to have a record of purchases and sales for six years which shall be available to the board. I think that the clause should at least be limited to those whose business it is to deal in those securities and not those who may from time to time purchase American securities. Individuals do not keep books for six years. An individual may happen to have a few shares of American stock that he buys.

Mr. MARQUIS: It would be hard to make a distinction between them.

The WITNESS: This section does not refer specifically to securities, Mr. Jackman. It refers to any transactions to which the Act applies.

Mr. JACKMAN: But it refers to securities.

The WITNESS: It would include securities, yes; but there is no specific reference to them.

Mr. JACKMAN: What I am suggesting is this. A merchant is all right. He keeps his books of account. A broker is all right. He keeps his books of account. But an individual does not do that. It costs money to keep books.

Mr. MAYHEW: What you are suggesting would look to me as though it would make a very sloppy section.

Mr. JACKMAN: I am not suggesting whether it is sloppy or not. I am addressing myself to the freedom of the individual. That becomes paramount.

Mr. MARQUIS: You do not need a big book. You need only a small one.

Mr. JACKMAN: But if you carry that on for six years, you will have a big one. I should like to know, around this table, how many keep books of account of what they do for six years.

Mr. MARQUIS: If you oblige some people to keep books I do not know why other people would not be obliged to keep books.

Mr. JACKMAN: They are not in business in the sense this would be taken.

Mr. MARQUIS: They would be in this particular business.

Mr. JACKMAN: No, they are not. It is a case of how it is going to be interpreted by the board.

Mr. MARQUIS: How can we make a distinction between those who are doing a big business, those who would be doing a smaller business and so on? It would be pretty hard to decide between the two groups.

The CHAIRMAN: Shall the section carry?

Mr. LESAGE: With regard to this section 42, we will have to have subsection (4) stand.

Mr. RINFRET: And subsection (3) also.

Mr. LESAGE: And subsection (3).

Mr. RINFRET: For the same reason as subsection (4) stands.

Mr. LESAGE: Yes. There is no sense in giving such powers to any customs inspector. Ninety days is much too long. Thirty days would be more than sufficient.

Mr. MARQUIS: We can make an inspection of the first two subsections.

The CHAIRMAN: If the department get word of an individual, isolated transaction, why should not they depute the inspector of customs to go out, make enquiries and report?

Mr. MARQUIS: All right, depute the inspector; but that is not what the section says. It says,

Where, during the course of an inspection under this section, it appears to an inspector that there has been a violation of this Act, the inspector may seize and take away any record or books or any accounts. . .

and so on. The inspector has the right to seize any books without any search warrant.

Mr. IRVINE: What is the use of having an inspector otherwise?

Mr. MARQUIS: Then where do we go with the Criminal Code?

Mr. IRVINE: What is the use of having an inspector if he does not have some authority to act with regard to things he finds wrong?

Mr. JACKMAN: We do not believe in snoopers.

Mr. LESAGE: He does not have to have a search warrant. Of his own authority he seizes any books and retains them for 90 days. Where do the liberties of the citizen go with this?

Mr. MARQUIS: I think those last two subsections should stand, the same as section 41. It is against the whole set-up of our laws.

Mr. JACKMAN: Are you speaking of the Act or just this section?

Mr. MARQUIS: No, just this section.

The CHAIRMAN: Section 41, subsections (1) and (2) carried. Subsections (3) and (4) stand.

Section 43.

Mr. LESAGE: In (b), Mr. Rasminsky, what are you going to cover with the first two lines, if it is not hearsay?

The WITNESS: In 43 (b)?

Mr. LESAGE: Yes, in 43 (b), the first two lines. I understand the last part of it, but what about the first two lines?

The WITNESS: You are referring to, that is "In any legal proceedings under this Act, give evidence"?

Mr. LESAGE: The information that will be obtained will be hearsay.

The CHAIRMAN: No. Just communicate to the board.

Mr. LESAGE: No, "In any legal proceedings under this Act, give evidence as to information..." and so on.

The WITNESS: I believe this originates in a flaw in the Income War Tax Act which Mr. Tarr can perhaps explain.

Mr. LESAGE: What would you cover with this which will be hearsay and which would not be covered by the two last lines?

Mr. TARR: Your point is that any evidence to which this might refer would not be admissible evidence?

Mr. LESAGE: No, it could not be admissible because it would be hearsay.

The CHAIRMAN: Income tax reports—

Mr. LESAGE: That is covered in the last two lines.

The CHAIRMAN:—signed by a person charged would not be hearsay.

Mr. LESAGE: But I was thinking precisely of the first two lines. Returns are covered by the two last lines. Written evidence is different.

Mr. TARR: For example, an officer of income tax might conduct an investigation under the Income War Tax Act in which he would obtain certain information.

Mr. LESAGE: Yes.

Mr. TARR: Which he under this section could give as evidence in a court if it was admissible.

Mr. RINFRET: Yes.

Mr. LESAGE: How do you imagine it can be admissible if it is not written? It would be hearsay, unless it is a verbal declaration of the accused himself.

Mr. MARQUIS: Yes.

Mr. TARR: I should think, for example, if an officer of income tax inspected a company's books and obtained certain information from those books, it at least might be admissible evidence for him to say what he did and what he found.

Mr. LESAGE: No, not if you do not produce the books.

Mr. TARR: In any event, it would be for the court to decide.

Mr. LESAGE: Yes. But it would not be according to our laws, or according to the Evidence Act.

Mr. MARQUIS: I do not think so.

Mr. LESAGE: There is only one case in which it would,—and that is the point I wanted to ask you about,—and that is if the accused person had made some declaration to a customs or income tax inspector.

The CHAIRMAN: No. Subsection (4) of section 41 protects him against that. The provision of the Canada Evidence Act applies. He has the right to

protection. Any statements or answers made by the accused or by the person being enquired into at the time of the enquiry cannot be used in evidence against him at a trial.

Mr. LESAGE: Then, what is the use of this provision.

Mr. TARR: The reason this provision is in here is that in the Income Tax Act there was doubt that the officers of income tax could even give evidence in a prosecution under the Income Tax Act. I understand that an order in council was passed to resolve that difficulty. This is here for exactly the same purpose.

Mr. LESAGE: I understand that, but those first two lines I cannot see the use of.

Mr. TARR: There is nothing in this section that makes admissible evidence that would otherwise not be admissible.

Mr. MARQUIS: We cannot foresee cases when the witness may bring legal evidence. In some cases I think he may bring some legal evidence, as Mr. Lesage said a few minutes ago, especially if he meets somebody, discusses it with him and has a voluntary declaration, he can bring back that declaration before the court and it is legal. So we have not to foresee any special cases according to this section. I think that this section should be accepted as it is.

Mr. IRVINE: I cannot see that it can do any harm if my friend here is correct in saying that any evidence that might be brought without being in written form will not be accepted by the court. Then surely if the court accepts it, it will be legal.

Mr. MARQUIS: Yes. That is the point. I think that is right.

The CHAIRMAN: I do not see anything wrong with section 43, Mr. Lesage.

Mr. LESAGE: I was just asking what was the use of the first two lines.

The CHAIRMAN: Yes. Shall section 43 carry?

Carried.

Section 44.

Mr. MARQUIS: "An inspector may, with the approval of a judge of the Exchequer Court of Canada . . ." and so on. The inspector is given power.

Mr. LESAGE: I do not think we should have any objection to that, because it is with the approval of a judge of the Exchequer Court.

The CHAIRMAN: Shall section 44 carry?

Mr. JACKMAN: May I ask what is there in the law to guide a judge of the Exchequer Court in granting permission or withholding it? Is it just his view of the case that the evidence warrants suspicion of a crime or is it just to have a little check on the inspectors?

The CHAIRMAN: I would think it was to have a check on the inspectors. The Exchequer Court would have established a practice, I should think, similar to other cases. In an ex parte application, you have to make out a prima facie case.

Mr. JACKMAN: Is there any substantive law that the Exchequer Court judge uses in determining what authorization should be given?

The CHAIRMAN: Other than the ordinary practice in any ex parte application. You have to make out a prima facie case.

Mr. JACKMAN: That a crime has been committed or is about to be committed; is that the idea?

The CHAIRMAN: Yes. Section 45—

Mr. LESAGE: Oh, in section 44 there is this 90 days again.

Mr. IRVINE: Where?

Mr. LESAGE: In subsection (3) the inspector may keep the books for 90 days when there is no prosecution. If there is any prosecution he may keep the books as long as the prosecution is on; but when there is no prosecution it is 90 days. I think that 30 days is enough to decide if there is going to be a prosecution or if there is not.

Mr. TARR: Our experience has been that a great many investigations involve a great deal of work and investigations in various places; and I think 30 days would be a very short time in a great many cases to enable investigations to be completed before it was known whether charges would be laid.

Mr. LESAGE: Would you give us your opinion as to the possibility of putting in 30 days and the possibility of having that period prolonged for another 30 days, or even another 30 days, with the direction of a judge?

The CHAIRMAN: Mr. Lesage, suppose an enquiry opens in Montreal and it is in part completed there; that the commission had to go to Victoria to complete the enquiry and then has to return to Ottawa with the papers. I can easily see how a month and a half might be taken up in actually making the enquiry before he would make his report to the board at all. I do not think 90 days is unreasonable.

Mr. LESAGE: Why not apply to a judge then? If I remember rightly, before the Wartime Prices and Trade Board—I am not sure of what I say now—we had to make application for prolongation of the time, for keeping the books and records. I am not sure about that, though.

Mr. JACKMAN: Otherwise the 90 days would become the minimum time, not the maximum.

Mr. LESAGE: I am not sure about that, as I say.

The CHAIRMAN: I have not heard one complaint about that.

Mr. JACKMAN: May I ask Mr. Tarr this question in reference to his statement that it was found that it took a large number of days to examine this evidence. Has he had very many cases of violation of the present regulations? How many prosecutions have you had since the Order in Council has been in force, approximately? Have you had 50 or 100?

Mr. TARR: Since the commencement of exchange control down to the end of June of this year there have been 597 convictions under the Foreign Exchange Control Order.

Mr. JACKMAN: You have got that many convictions?

Mr. TARR: Yes.

The CHAIRMAN: And thousands of enquiries where no prosecution followed. Shall section 44 carry?

Carried.

Section 45.

Carried.

Section 46.

Carried.

Section 47.

*By Mr. Jackman:*

Q. How much money is a person allowed to take over with him to the United States without a permit?—A. \$50.

Q. He can take over as much as the board will give him, if he gets a permit?—A. Yes.

Mr. JACKMAN: These regulations, it seems to me, make violators of many people. I would suggest that nearly every man that goes over has some American

currency in his pocket. You have to state how many days you are going over there for, and the amount is based on that. You may be going to New York, and the difficulty of all this is that a perfectly honest citizen may have to evade a question and do certain other things because of the restrictions. Still, that may be all right for some other people if they have greater sums of money. You cannot explain to the bank officials what your business is in New York. If you say you have got to take some people to the theatre and a night club, it will cost more money than they will give you. Certain expenses, unfortunately, in a city like New York are necessary.

The CHAIRMAN: What if the night club was raided while you were there?

The WITNESS: I think there must be some misunderstanding here. Since May, 1945, there has been no limit on the amount of United States funds which can be bought by Canadians for the purpose of travel in the United States. The board does not ask for any itemized statement of expenditures. The banks have authority to sell up to \$250 in United States funds for travel in the United States for any purpose. Applications for any amount in excess of \$250 are referred to the board for approval. Since May, 1945, the board has approved all applications for travel funds. The only type of application that would be refused is one in which the amount was so large that it raised a very strong presumption that the United States funds were being purchased not for the purpose of travel, including ordinary entertainment and expenses, but that they were being purchased for some other purpose.

*By Mr. Irvine:*

Q. Is this \$50 under discussion an amount that may be sent by letter or parcel?—A. Mr. Jackman asked how much a Canadian traveller could take out without a permit. That amount is \$50. If any Canadian is leaving Canada with less than \$50, he needs no permit. If he wants to take between \$50 and \$250, he is able to buy that amount from his bank and get a permit from the bank. If he wants more than \$250, the application must be referred to the board.

Q. That does not come under section 47?—A. No, that does not come under section 47.

*By Mr. Rinfret:*

Q. Did I understand you to say that the board did not refuse any application over \$250?—A. The board refuses no application for United States funds for reasonable travel expenses.

Q. Has consideration been given to increasing the amount the banks may issue?—A. The limit is \$250.

Q. What is the purpose, if the board will grant every application that is made to it, for not giving the banks some authority so that anybody who wants to go down South for his health, or any other purpose, can have the amount he needs?—A. The purpose of setting the limit at \$250, or working it up to \$250—two years ago we had no authority to approve funds for \$250—was to enable the Board to see these applications as they went through and to guard against abuses in regard to the applications. For example, if someone asked for \$10,000 for a week-end in New York, it would raise a question in our minds.

Q. The bank should be able to judge in these cases?—A. I do not think, Mr. Rinfret, that on applications of this sort the banks would welcome the task of judging them. The limit of \$250 is the amount on which we are working at the present time. Before the travel restrictions were imposed the banks had a somewhat higher authority, and I would expect in the course of time, and not far distant, that just as we have progressively relaxed in that direction, we will raise the limit on the banks' authority. As things stand now, it is the case that the banks themselves have the authority to approve the great majority of applications.

Q. Have you the percentage?

Mr. TARR: I do not know that we have any way of ascertaining that.

Mr. RINFRET: It seems to me that if someone wants to go to Florida, he cannot go until he applies to the board, and the board will automatically give him permission to carry \$1,000. Why not give the authority to the bank?

Mr. TARR: The banks have authority to sell up to \$250 in United States funds at the time a person is leaving, and if they are making an extended stay, the bank can send them \$250 a month as long as they are there.

Mr. RINFRET: You cannot go very far on \$9.25 a day.

Mr. TARR: It is surprising the number of people that do.

The WITNESS: It is a purely administrative measure to keep supervision. I think we might well consider suggesting that the banks' authority to approve travel applications should be raised.

*By Mr. Jackman:*

Q. These are all discretionary. Might I ask this question? Is a Canadian allowed to hold any American currency in Canada, or does he have to turn it in?—A. There is no general authorization for a Canadian to hold United States currency.

Q. If you want to subscribe to a magazine in the United States, you cannot send them a \$5 bill; it is against the law?—A. It is against the law not to declare American money when you come back.

Q. You can get the money provided you have time to walk over to the bank and neglect your own business. That is the difficulty with these controls; they are troublesome. Just how you decide whether one family is entitled to \$1,000 and another family is not, I do not know.—A. We do not attempt to do that. We do not attempt to exercise any discretion on the amount of United States funds for travel purposes, and we do not attempt to control travel expenditure in the United States.

Mr. MARQUIS: I would like to ask Mr. Rasminsky a question, Mr. Chairman. When a person goes to the United States and comes back and has \$10 left, that being an offence, do you not think there would be some proviso for an amount like that?

The CHAIRMAN: When we come to Section 60, we will discuss that.

Does Section 47 carry?

Carried.

Mr. JACKMAN: Take our Prime Minister who took his post-graduate work at Harvard University. Supposing a Canadian wanted to send his son there, what assurance has he under this Act that money would be forthcoming for a purpose like that? Currency might be a little tighter at some time, and they would say, "We cannot let you have the money." This is another interference with the rights of persons.

*By Mr. Marquis:*

After all, I think the members of the board are reasonable persons?—A. I think the answer to your question, Mr. Jackman, is that while there is no assurance provided under this measure that exchange will be made available for any purpose, even for imports. Under this measure the exchange policy of the government will, from time to time, be determined in the light of its exchange resources and its liabilities.

Q. Going back to the question of education once again, what hope is there of knowing whether the money would be forthcoming? The boy might take a one or two year course, and he could not get money.

The CHAIRMAN: Get Mr. Jackman to bring it up at the next session of the parliament when anything like that happens. Parliament meets every year.

Mr. MARQUIS: Mr. Chairman, as to education, anybody may be able to get an amount for educational purposes and spend his time in the night clubs. It is clear that if somebody makes an application for educational purposes, it will be granted.

Mr. JACKMAN: It is not clear. It may be clear at the moment, but you do not know what is going to happen a year from now.

The WITNESS: The exchange policy, as you know, is that no restrictions whatever are placed in the way of any current account transactions including the two to which you have particularly referred, travel abroad and education abroad.

The CHAIRMAN: Section 48.

Carried.

Section 49.

Carried.

Section 50.

Carried.

Section 51.

Carried.

Section 52.

Carried.

Section 53.

Carried.

Mr. JACKMAN: Is there any reason why the board should not allow a Canadian to have up to \$100 in United States currency without turning it in to the board? That is a small amount.

The CHAIRMAN: Section 60 will take care of that.

Section 54.

Carried.

Section 55.

Carried.

Section 56.

Carried.

*By Mr. Jackman:*

Q. Is there any reason why a person could not have up to \$100 in United States currency and use that for paying small bills in the United States by sending it over in a registered letter? For instance, take the position of a business man who may have a hurried call to New York on a Saturday afternoon. He has no United States currency; he cannot go and beg the money, so it would not surprise me if business men had \$100 in United States currency in the office available for just such a purpose. I am not suggesting that you have caused this embarrassment, but people like to obey the law. I am suggesting that some leeway should be given to that.—A. We are aware that a large number of business men have done what you precisely suggest, that is, that they have retained United States currency in their offices. We have given them authority and that is why we are aware of that. Business men who have had the occasion to go to the United States during the weekend, or not necessarily during the weekend, have been authorized to maintain an imprest fund in United States

currency to save them precisely the type of inconvenience you have mentioned. We have often authorized the keeping of imprest funds in United States currency for precisely that type of business, for convenience.

Q. What do they do? I haven't heard of them doing it. I suppose some of them do it without getting a permit, I should think. What do you have to do to get it? Do you have to send a letter to the board? I suppose you are frequently called upon to make emergency trips to the United States and you could have permission then to keep say \$100 or \$200 of American currency without going to the board. Is that what happens?—A. Yes, then if they state that for their ordinary purposes they need, have occasion to make frequent trips to the States, then they are authorized to buy lump sum amounts of United States currency from the bank. They are also given special business travel permits, which are what you might call a continuous form H, which relieves them of the necessity of applying to the bank for form H each time they cross the border, and they are authorized to replace that imprest fund as they use it up in travel.

Q. What is the meaning of "imprest" there? They can replenish their petty cash account, is that what it means?—A. Yes, that is right.

Q. I suppose it gets over that difficulty then— —A. If I could just say this, Mr. Jackman; we have had six years of experience in trying to meet various types of difficulty and I can assure you that we have been successful in many cases. We are continuing as far as it is humanly possible so to do to minimize any inconvenience which may be associated with a measure of this kind. That certainly has been our objective.

Mr. MARQUIS: I do not know the proper section which it comes under, but I would suggest that an amount might be fixed. Many people all over the country, farmers for instance, are going to the United States, and they bring back with them some dollars in United States currency. They are offending the law, and most people do not want to offend. I think this situation should be corrected. I know the board will not prosecute them, but they are infringing the law.

Mr. JACKMAN: It kind of gets them into bad habits.

Mr. MARQUIS: Yes. Don't you think it would be desirable to fix that amount at say \$25 perhaps and then people will know that they can keep that amount?

The WITNESS: I think consideration might be given to that. Theoretically, \$25 per person for 10,000,000 Canadians is \$250,000,000, which is potentially a large sum to risk having go out of official reserves into private hands, but this amount would not of course be held. One would have to take into consideration the effect that such an exemption, if incorporated into legislation, would have if it became necessary to face again a condition similar to what we had in 1940 where there was a complete prohibition of pleasure travel to the United States. One would of course merely be inviting evasion if such a provision were incorporated in legislation.

Mr. MARQUIS: You could fix it by regulation.

The WITNESS: That would provide fewer difficulties because then it could be changed in relation to exchange conditions. I will be very glad to bring that to the attention of the minister as one of the things to be considered when the regulations are being drafted under this Act.

Mr. JACKMAN: Please do not put too much emphasis on the \$250,000,000.

The WITNESS: It is a very theoretical figure.

The CHAIRMAN: Section 57.

Carried.

Section 58—Burden of proof.

Carried.

Mr. MARQUIS: Wait a minute, as to burden of proof: I would draw your attention, Mr. Rasminsky, to this: "it shall not be necessary to establish in proof of the offence that the person charged did not possess a permit or has not been exempted from the applicable provisions of this Act, and the burden of proof that he possessed the necessary permit or had been exempted from the applicable provisions of the Act shall be upon the person charged." I do not know why you put the onus of proof on the shoulders of the accused because the board itself knows whether he has been given a permit or not. As to the permit if someone has no permit you can prove very easily that he has not a permit because you issue it yourself. Perhaps in some cases a man may not have a permit himself—

Mr. IRVINE: He might swear that he has one.

Mr. MARQUIS: But in that case he does not possess evidence you see.

Mr. IRVINE: Perhaps the lawyers would become judges, and perhaps they will try to get the best of them.

Mr. TARR: The reason for this is that in fact it is practically impossible to prove that any individual did not have a permit for a particular transaction. The vast majority of permits and declarations are approved by the ranks and are eventually sent in to the board, but it would mean going through thousands of permits on file in the board. Also, we would not know whether it had been granted and did not reach us.

Mr. MARQUIS: I am satisfied.

Carried.

The CHAIRMAN: Section 59.

Carried.

Section 60: In section 60, Mr. Rasminsky, would it be possible to have a rider added that, "if the court is satisfied that any offence has been committed unwittingly or in ignorance of the law the court shall have discretion to acquit"? It does seem to me that that would answer a lot of questions that have been raised about this Act, about breaking the law.

The WITNESS: I think, Mr. Chairman, that those who drafted this measure did have in effect the intention that you have suggested. If you will look at section 56, subsection (1) which defines offences:—

"Every person is guilty of an offence who (a)—that speaks for itself; then, (b) wilfully deceives; (c) wilfully obstructs; (d)—that is rather different; (e) knowingly; (f) knowingly; (g) without lawful excuse; (h) with intention to evade the provisions of this Act.

The CHAIRMAN: And then (i) violates or fails to comply with any provisions of this Act or any regulation; does it "knowingly", offends.

Mr. MARQUIS: I think, Mr. Chairman, that provides the discretion which applies in those particular cases; that where it is clear that the person concerned did not know the law the judge would give them a very small sentence.

The CHAIRMAN: I have known so many convictions out of the Wartime Prices and Trade Board where the magistrate has said that a technical offence has been committed and I have no option, I must impose a penalty. I have had magistrates come to me and tell me they knew the man committed the offence innocently and they didn't want to make a conviction but they had no option. I do not think we should allow any legislation to go through our hands without the most complete safeguards, and I think the word "knowingly" should come in front of the word "guilty".

Mr. JACKMAN: Out of the court only, I think you might say "knowingly".

Mr. TARR: There is this point that under a provision such as you describe anyone could say, I did not know that was the law, and it is absolutely impossible for the crown to establish that a person did know.

Mr. JACKMAN: One could commit a major offence in cases of currency without knowing what the law is.

Mr. TARR: You cannot establish what is in other people's minds.

Mr. JACKMAN: The most important thing you have to remember is the freedom of the subject, not the rights of the board.

Mr. IRVINE: If you do not pass legislation of this kind, you won't have any freedom of the subject.

Mr. JACKMAN: We got along very nicely during the war when conditions were really difficult. We are in a more favored position now yet you want to perpetuate it.

The WITNESS: I would like if I may to say that this is not our board, Mr. Jackman. This is the Canadian Foreign Exchange Control Board operating under it.

The CHAIRMAN: I want it distinctly understood that I have positively no complaint in regard to the operation of this board. I am concerned in cases where offences have been committed unwittingly.

Mr. JACKMAN: If we had a less competent staff of officials operating, it would be a different thing. That is what legislation must bear in mind. Is this Act modelled on the British Act, or is it our own conception of what is necessary?

Mr. TARR: The British have no Act. They are operating under orders in council in the same way as the board is at the present time.

Mr. JACKMAN: Are we trying to establish regulations modelled after their experience or after our own?

Mr. TARR: No. I think it is distinctively Canadian.

The CHAIRMAN: Carried.

Section 61:

Carried.

Mr. JACKMAN: Where is that one about the burden of proof being on the accused?

Mr. MARQUIS: That is finished.

The CHAIRMAN: That is only proof that he has a permit. You are referring to section 58. That is only the burden to prove that he is possessed with the necessary permit.

Mr. JACKMAN: I mean section 61, of course, you have this burden of proof and forfeiture. May I just ask this general question? If a person is accused under this section, is the general burden of proof when charges are made on the accused, or must the Crown prove its case?

Mr. TARR: The only case where the burden of proof is on the accused is as set out in section 58.

Mr. MARQUIS: This is subsection 2 and this refers to the burden of proof in any proceeding of forfeiture. The burden of proof which under section 58 of this Act rests upon the person charged means that it rests upon the defendant.

Mr. JACKMAN: Under the ordinary rule of law an accused person is innocent until he has been proven guilty.

The CHAIRMAN: Is section 62 carried?

Carried.

Section 63.

Carried.

Section 64.

Mr. IRVINE: If they do not take it in that time it does not matter whether or not they take it.

Mr. RINFRET: Is there any special reason why it should be three years?

Mr. MARQUIS: Generally it is one year.

*By Mr. Irvine:*

Q. Is there any particular reason for making it three years?—A. I am sorry, I am consulting my legal friends here to see whether there is, in fact, any particular reason.

Mr. TARR: It was thought there should be some limit on the time within which proceedings for forfeiture could be commenced. Three years is a reasonable period of time. I believe the provisions of the Customs Act and the Excise Act are the same.

Mr. MARQUIS: Is there the same delay in the Customs Act?

Mr. TARR: Yes.

The CHAIRMAN: Shall the section carry?

Carried.

Section 65, disposal of fines. Carried?

Carried.

Section 66, bond or other security. Carried?

Carried.

Section 67, evidence before the court. Carried?

Carried.

Section 68, information not to be communicated.

Carried.

Section 69, permit not deemed a statement as to the value of property.

Carried.

Section 70. Bills of exchange.

Carried.

Section 71, powers of Bank of Canada include powers under this Act.

Carried.

Section 72, Foreign Exchange Control Board continued.

Carried.

Section 73, repeal.

Carried.

Section 74, coming into force.

Carried.

Will 4 o'clock tomorrow afternoon suit the committee to have a general statement in regard to the five points raised before the committee at the opening of our sittings on July 17th? That is the consideration of the five main points raised by Mr. Jackman and Mr. Macdonnell. If I can arrange

it the Hon. Mr. Abbott will be present. We will clear up those matters at 4 o'clock tomorrow afternoon and we shall ask Mr. Rasminsky to attend also in case anything else should come up.

Mr. JACKMAN: May I just suggest that because of the necessity for the presence of Mr. Abbott, as well as the rest of us it will have to be when the budget resolutions are not under discussion. Will you make sure the time does not conflict with that?

The CHAIRMAN: I shall be glad to. 4 o'clock tomorrow.

SESSION 1946  
HOUSE OF COMMONS

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STANDING COMMITTEE  
ON

# BANKING AND COMMERCE

---

BILL 195, FOREIGN EXCHANGE CONTROL

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7

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THURSDAY, JULY 25, 1946

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WITNESSES:

Mr. L. Rasminsky, C.B.E., Chairman (Alternate), Foreign Exchange Control Board.

Mr. H. H. Tarr, Secretary, Foreign Exchange Control Board.

OTTAWA  
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,  
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY  
CONTROLLER OF STATIONERY  
1946

REPORT TO THE HOUSE

FRIDAY, July 26, 1946.

The Standing Committee on Banking and Commerce begs leave to present the following as a

SEVENTH REPORT

Your Committee has considered Bill No. 195, An act respecting the Control of the Acquisition and Disposition of Foreign Currency and the Control of Transactions involving Foreign Currency or Non-Residents, and has agreed to report it with amendments.

A copy of Minutes of Proceedings and Evidence relating to the said Bill is annexed hereto.

All of which is respectfully submitted.

HUGHES CLEAVER,  
*Chairman.*

## MINUTES OF PROCEEDINGS

THURSDAY, July 25, 1946.

The Standing Committee on Banking and Commerce met at 11.00 a.m., the Chairman, Mr. Cleaver, presiding.

*Members present:* Messrs. Beaudry, Belzile, Blackmore, Bradette, Breithaupt, Cleaver, Dechene, Dionne (*Beauce*), Hazen, Jackman, Lesage, Macdonnell (*Muskoka-Ontario*), Marquis, Mayhew, Rinfret, Stewart (*Winnipeg North*).

*In attendance:* Hon. D. C. Abbott, representing the Minister of Finance; Mr. R. W. Mayhew, M.P., Parliamentary Assistant to the Minister of Finance; Mr. L. Rasminsky, C.B.E., Chairman (Alternate), Foreign Exchange Control Board, Mr. R. H. Tarr, Secretary, Foreign Exchange Control Board and Mr. D. W. Mundell, Department of Justice.

The Committee continued consideration of Bill No. 195, An Act respecting the Control of the Acquisition and Disposition of Foreign Currency and the Control of Transactions involving Foreign Currency or Non-Residents.

Mr. Rasminsky was questioned by Mr. Macdonnell.

The Hon. Mr. Abbott read a prepared statement, and amendments proposed to Clause 5 (4), 7 (2) and 39 (1) and 39 (2).

Clause 5, subsection 4 reconsidered.

On motion of Mr. Rinfret, it was

*Resolved:* That Clause 5, subsection 4 be amended by deleting the clause and substituting therefor the following:—

(4) The minister shall report to Parliament within thirty days after the thirty-first day of March in each year the amounts authorized by the Governor in Council under paragraph (c) of subsection two of this section which were outstanding on the last day of the preceding calendar year or, if Parliament is not then sitting, the amounts so authorized shall be published in the *Canada Gazette* within such time and the Minister shall report the said amounts to Parliament within thirty days after the commencement of the next ensuing session thereof.

Clause 5 (4) adopted as amended.

Clause 5 adopted as amended.

Clause 7 (2) reconsidered.

On motion of Mr. Dechene, it was

*Resolved:* That Clause 7 be amended by deleting subsection (2) and substituting therefor the following:

(2) The Minister shall report to Parliament within thirty days after the thirty-first day of March in each year the amount of advances to the Exchange Fund Account outstanding on the last day of the preceding calendar year or, if Parliament is not then sitting, the amount of such

advances shall be published in the *Canada Gazette* within such time and the Minister shall report the said amount to Parliament within thirty days after the commencement of the next ensuing session thereof.

Clause 7 (2) adopted as amended.

Clause 7 adopted as amended.

Clause 39 reconsidered.

On motion of Mr. Rinfret, it was

*Resolved:* That Clause 39 be amended by deleting subsection (1) and (2) and substituting therefor the following:

39. (1) Within five months after the thirty-first day of December in each year the Board shall submit to the Minister a report of the operations of the Exchange Fund Account for the twelve months ending on the said thirty-first day of December, in such detail as the Minister may from time to time regard as reasonable and proper, together with such summary or report by the Chairman of the Board as he may deem desirable or as may be required by the Minister.

(2) A copy of the report under this section shall, within fourteen days after receipt thereof by the Minister, be published in the *Canada Gazette*, or if Parliament is not then sitting, it shall be laid before Parliament within fourteen days after the commencement of the next ensuing session thereof.

Clause 39 adopted as amended.

The Minister continued reading a prepared statement and was questioned thereon by Messrs. Macdonnell and Jackman.

A motion by Mr. Macdonnell that the Bill be amended by adding a new clause which would have the effect of restricting the duration of the Bill to thirty days after the next meeting of Parliament was negatived on division: Yeas, 3; Nays, 7.

The Chairman filed, and placed on record an opinion signed by the Deputy Minister of Justice with reference to Bill No. 195. (J.R. 11.450-45, dated July 23, 1946).

Clause 11 reconsidered.

On motion of Mr. Rinfret, it was

*Resolved:* That Clause 11 (1) be amended by deleting the words "Deputy Postmaster General" and substituting therefor the words "Director of Operations, Post Office Department".

Clause 11 (1) adopted as amended.

Clause 11 adopted as amended.

Clause 25 reconsidered and adopted.

Clause 35 (3) reconsidered and adopted.

Clauses 41 and 42 stand for further consideration.

The Committee adjourned at 11.25 a.m., to meet again at 4.00 p.m.

## AFTERNOON SITTING

The Committee resumed at 4.00 p.m., Mr. Cleaver, presiding.

*Members present:* Messrs. Breithaupt, Cleaver, Fraser, Gour, Hazen, Irvine, Isnor, Jackman, Lesage, Mayhew, Rinfret, Sinclair (*Ontario*), Thatcher.

*In attendance:* Mr. R. W. Mayhew, M.P., Parliamentary Assistant to the Minister of Finance, Mr. R. H. Tarr, Secretary, Foreign Exchange Control Board, and Mr. D. W. Mundell, Department of Justice.

The Committee resumed consideration of Bill 195 on Foreign Exchange Control.

On motion of Mr. Lesage,

*Resolved*—That clause 41 be amended as follows:—

By deleting sub-clause (1) and submitting therefore the following:—

(1) The Board or any Inspector designated by the Board for the purpose may conduct inquiries or investigations into matters relating to transactions to which this Act applies and may require any person to furnish information relevant to an inquiry or investigation and may summon before him any person and may examine him and require him to give evidence orally or in writing, on oath or, if he is entitled to affirm, on solemn affirmation or by statutory declaration, on any matter pertinent to such inquiry or investigation.

By deleting sub-clause (6) and substituting therefore the following:—

(6) Any person who is examined and required to give evidence in the course of an inquiry or investigation under this section shall be entitled to be represented by counsel at such examination.

By adding the following sub-clause (8):—

(8) No person shall be arrested for an offence under this section without a warrant.

Clause 41 adopted as amended.

On motion of Mr. Lesage, clause 40(1) was reconsidered and amended by deleting all the words after the word "Act" in the second line thereof.

Clause 40 adopted as amended.

Clause 42 (3) and (4) were reconsidered and adopted.

Title carried.

The Chairman was ordered, on division, to report the bill.

The Committee adjourned to the call of the Chair.

R. ARSENAULT,  
*Clerk of the Committee.*



## MINUTES OF EVIDENCE

HOUSE OF COMMONS,

July 25, 1946.

The Standing Committee on Banking and Commerce met this day at 10 o'clock a.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: Gentlemen, we have a quorum. By referring to volume No. 5 of our minutes and evidence in the evidence of July 17 you will find at the opening of that meeting a summary of some five matters that the minister was asked to discuss, and if it is your wish we will proceed with that now.

Mr. MACDONNELL: Mr. Chairman. I have three or four questions I should like to ask of Mr. Rasminsky, but I shall be as short as I can with them.

**Mr. L. Rasminsky, Chairman (Alternate), Foreign Exchange Control Board, called:**

*By Mr. Macdonnell:*

Q. Mr. Rasminsky, I want to make sure that I am right on this point. If Mr. Jackman and I go to the board and Mr. Jackman wants to build a factory in the United States and I want to invest in securities in the United States, my understanding is that the board will give Mr. Jackman American exchange for his purpose but will not give it to me for mine; is that correct?—A. Subject to certain qualifications regarding the nature of Mr. Jackman's investment, what you say is true.

Q. My question, secondly, is that if I am refused permission by the board to receive from them American exchange for that purpose of making my investment there is nothing to prevent me from making my investment by using for that purpose Dominion of Canada bonds which are saleable in New York; is that correct?—A. Whether or not you are refused permission, it is open under the present regulations for any Canadian who wishes to secure a marketable security in the United States to do so by the export of securities including dominion government bonds from Canada.

Q. And there is no limit on that?—A. There is no limit on that.

Q. Theoretically that leaves the door wide open. I suppose the limitation on that is that any man doing it would suffer to some extent by the fact that he would not be able to sell dominion bonds in New York for the same price that he could get here?—A. At the present time that is the only difference between acquiring his investment through the purchase of exchange and acquiring it in that way, from the point of view of the individual. From the point of view of the Canadian economy there are, of course, important differences in the two methods. The aim of the security exchange regulations has been to permit the maximum amount of freedom in security exchanges by residents on non-resident markets which is compatible with two things; with there being no net export of capital from Canada and, secondly, with there being no transfer of the United States dollar reserves from official to private hands.

Q. I do not want to lengthen this. I want to clear this matter up by asking if this is a correct statement. In other words, here is the Foreign Exchange Control Board with a pot of securities—the Foreign Exchange Control Board which will facilitate out of its resources and through its means certain transactions but not others. One of the transactions it ordinarily will not facilitate is purchase of securities in the United States, but there is a by-pass which cannot be used

theoretically without limitations; in others words, the purchaser can make payment to the United States with Dominion of Canada bonds?—A. Or other securities.

Q. The second question I have to ask is this. At the time when Canadian exchange was being revalued I take it the position was that the government came to the conclusion or the board came to the conclusion, that the American dollar was buying 10 per cent too much in the country; in other words, we were sending out 10 per cent too much goods in return for the American money we were getting; is that correct?—A. I do not think that is an incorrect way of putting it. The statement of the reasons why the government came to that conclusion was made by the Minister of Finance in the House on the 5th of July.

Q. This may probably not be a proper question and if so just say so. Would you say whether that condition had existed some considerable time prior to that period?—A. I would answer that this way. As I said previously in my evidence, the question of the appropriate exchange rate is an anticipation of the future as much as it is a reflection of past history, or of the existing fact. The inference to be drawn from the fact that the rate was changed on the 5th of July is that at some time prior to that date the government's anticipations regarding the future, based no doubt in part on the recent past, were of a character which led it to the conclusion that the value of the American dollar should be reduced by 10 per cent.

Q. Now, my next point. Do you think it is at least arguable, strongly arguable, that there is a great deal to be said for having your exchanges regulate themselves somewhat less drastically? In other words, have your regulation more gradual rather than have a sudden drop of 10 per cent?—A. I would like to be sure I understand your question. Is the question whether in circumstances in which the government came to the conclusion that a 10 per cent change of the exchange rate was appropriate that it should decide to make that change by small stages rather than making a 10 per cent change?

Q. No, it is broader than that: whether you do not think that exchange readjustment would be better to come about gradually rather than in such a tremendous minor convulsion as a 10 per cent drop which has a profound effect on a great many people?—A. If a free exchange market could be depended upon to make gradual adjustments in accordance with what Mr. Jackman, in a question some time ago, called natural economic forces, I think that gradual adjustments would be preferable to major adjustments of that sort; but I think that the whole history of the fluctuations of the Canadian exchange rate under a free exchange market demonstrates that a free exchange market has in recent history, save for a relatively short period, not in fact produced such gradual adjustments.

Q. I do not want to leave it exactly as it is. It seems to me if you take the period between 1920 and 1940 apart from the two periods when government intervened there was a good deal of steadiness. There are many sections in the Act which passed through my mind the other day and which I call police provisions, extraordinary powers. Where did these come from? Have you had them all during the years or were they taken from other practice?—A. I think, sir, they are based on the experience of every exchange control system which has ever attempted to offer—

Q. Have you ever compared it with the German system?—A. Letter for letter?

Q. Yes, or in any other way?—A. No, sir, I think that the whole history of the exchange control—the experience of every country—is that if an exchange control is to be effective it must be comprehensive. I think the history of every system, including the British to which you have particularly referred, proves that any loopholes left in the system will be used as a channel of evasion by those who wish to evade the exchange control regulations.

Q. Still, you are agreed or you are ready to comment that many of these provisions seem to indicate that they have at present many of the characteristics of the police state in respect of this Act, because you can arrest people without warning and so on. I think those are all the questions I have to ask now. I do want to say something as to the time but that will come later.

Hon. Mr. ABBOTT: As the chairman indicated there were a number of sections allowed to stand, and I was to make a statement on two or three points raised by Mr. Macdonnell and others. The first question he raised was with regard to section 39 on the submission of the annual report of the board to parliament or if parliament were not sitting at that time it would be tabled within a certain delay after the next session, and he pointed out that that might mean an unusually long delay. A somewhat similar provision is contained in two or three other sections with respect to advances made to the exchange fund, and I stated at the time I would be glad to consider an amendment which would cover the point which was raised. I have a proposed amendment to section 5, subsection (4), which calls for a report to parliament on other foreign exchanges, other than U.S. currency, held by the board. Section 39 was the one referred to by Mr. Macdonnell and relates to the annual report. There is also section 7, subsection (2), which relates to a report to parliament of the advances made by the minister out of consolidated revenue fund to the exchange fund account.

I have three amendments to cover those three sections. I do not know whether I should read the amendment in full. Perhaps I might read one which is a pattern for the other three. First, as to section 39, which is the section raised by Mr. Macdonnell, I suggest that that be amended as follows:—

39. (1) Within five months after the thirty-first day of December in each year the board shall submit to the minister a report of the operations of the Exchange Fund Account for the twelve months ending on the said thirty-first day of December, in such detail as the minister may from time to time regard as reasonable and proper, together with such summary or report by the chairman of the board as he may deem desirable or as may be required by the minister.

(2) A copy of a report under this section shall, within fourteen days after receipt thereof by the minister, be published in the *Canada Gazette* and, if Parliament is then sitting, be laid before Parliament, or if Parliament is not then sitting, it shall be laid before Parliament within fourteen days after the commencement of the next ensuing session thereof.

Mr. MACDONNELL: You have made it five months instead of six. What is the full delay?

Hon. Mr. ABBOTT: Five months and fourteen days.

The CHAIRMAN: May we carry section 39 as shown in the bill with the words substituted as read?

Carried.

Hon. Mr. ABBOTT: The next is section 5. Perhaps I need not take the time to read the whole amendment, but there again the minister is required to report to Parliament within thirty days after the 31st of March of each year the amounts authorized by the Governor in Council under paragraph (c) of subsection (2) of the section, and I am suggesting in the amendment that if Parliament is not then sitting the amounts so authorized be published in the *Canada Gazette* within that delay and the report be made to Parliament at the next session.

The CHAIRMAN: I take it that it is a new subsection (4)?

Hon. Mr. ABBOTT: No, it is an amendment that subsection (4) of section 5 be replaced by an amendment which I have here.

The CHAIRMAN: It is moved that subsection (4) of section 5 be deleted from the bill and the following substituted in lieu thereof:—

(4) The Minister shall report to Parliament within thirty days after the thirty-first day of March in each year the amounts authorized by the Governor in Council under paragraph (c) of subsection two of this section which were outstanding on the last day of the preceding calendar year or, if Parliament is not then sitting, the amounts so authorized shall be published in the *Canada Gazette* within such time and the Minister shall report the said amounts to parliament within thirty days after the commencement of the next ensuing session thereof.

Are there any objections?

Mr. JACKMAN: Does that mean that the information will be published within a certain time after the 31st of March?

Hon. Mr. ABBOTT: Within thirty days after the 31st of March each year. If Parliament is not sitting we are going to publish it.

Finally, section 7, subsection (2), which requires the minister to report to Parliament within thirty days after the 31st of March the amount of advances outstanding to the exchange fund account; and there is a similar amendment to provide that if Parliament is not sitting that report will be published in the *Canada Gazette* within the delay mentioned.

The CHAIRMAN: Shall the amendment carry?

Carried.

Mr. RINFRET: Is there not one other with regard to the same question? Subsection (3) of section 35 was left standing for the same reason.

Hon. Mr. ABBOTT: Yes. I think subsection (2) provides that no regulation shall be effective until approved by the Governor in Council and published in the *Canada Gazette*, so that is all provided for.

Mr. RINFRET: That is why it was allowed to stand.

Hon. Mr. ABBOTT: I think it was overlooked. Subsection (2) made provision for publicity in that case. Mr. Macdonnell raised two or three questions to which Mr. Cleaver referred. Mr. Jackman raised a question as to whether the amounts which might be advanced to the exchange fund by the minister out of consolidated revenue fund were unlimited, and the answer to that is in the affirmative. The position is this: under a number of other Acts I am informed a similar provision is made whereby moneys may be advanced from the Consolidated Revenue Fund to other government accounts for working capital or otherwise. I should state that in most, if not in all of these cases, a definite limit is set. But it is pointed out to me that here the purpose of the advance is to purchase cash. It is really a transfer of funds. The Auditor General, I am informed, has expressed the opinion that it is not even necessary to obtain statutory authority for this operation. But in any case, be that as it may, we are asking for statutory provision here. The reason why it is not considered advisable to put a limit on is that the board is under obligation, for instance, so long as the present policy is in existence, to purchase all American dollars which are offered to it for the account of a Canadian citizen who wishes to sell them. It would therefore be necessary in order to make this workable to place the amount of the limit at perhaps a very large sum, which might not be desirable and might not be fully understood. The amount which is advanced to the exchange fund account must be disclosed annually and published in the *Canada Gazette*.

Mr. MACDONNELL: You would not accept \$2,000,000,000 would you?

Hon. Mr. ABBOTT: I dare say that would be adequate. I am not an expert in foreign exchange control. But I really think it is better to leave the amount unlimited. There is no risk involved. It is just a transfer from one pocket to another.

Mr. JACKMAN: If that were so, I might agree with you. But it is quite obvious that if we had spent \$1 billion acquiring United States exchange, as we

might well have done prior to July 5, and we find after July 5 it is worth 10 per cent less, we have lost \$100,000,000. That is a very great sum of money, in view of taxation.

Hon. Mr. ABBOTT: I do not want to enter into an argument on this "loss" on exchange operations. But the fact remains, I think, that so long as we operate exchange control we must be prepared to purchase foreign currencies; or if we operate on the other basis and operate a stabilization fund, we would have to use the same device. So in the result, the government has come to the conclusion that the section as submitted must stand and that we think it inadvisable to attempt to put a limit on the amount of these advances.

Mr. MACDONNELL: Mr. Chairman, I am inclined to agree with the minister in one sense, namely that if we accept the principle of this—which in many ways I greatly deprecate—except for a very short period, and let us say, we authorized \$100,000,000, \$200,000,000 or \$400,000,000, if the time came when that was not enough, then it might be very awkward. The alternative, of course, would be—an alternative which might be attractive, Mr. Minister, and which we can not wholly abandon in our minds at the moment—the fixing of an amount which is very large, and which would show the people of Canada after all what does underlie this, that they are relying on the judgment of a few people; and the judgment of those few people might run them into terrific and alarming losses. Are we not leaving ourselves open?

Hon. Mr. ABBOTT: Yes. I appreciate that. I thought I should state that after consideration the government feels that this section as contained in the bill should stand.

Mr. JACKMAN: Of course, the reason the minister does not want to state a specific sum which would give sufficient amplitude to the operation of the board is that the amount would be so large it would probably frighten the public who would not understand it.

Hon. Mr. ABBOTT: No. I do not think that is my reason. But I think the amount might have to be unnecessarily large.

Mr. JACKMAN: Oh, oh.

Hon. Mr. ABBOTT: Yes. I think as Mr. Macdonnell has very aptly said, if we are operating a system—although I do not want to put words into his mouth—of exchange control, there must be a degree of flexibility to enable us to operate efficiently.

Mr. MACDONNELL: That is a perfectly correct statement, but I should like to make this reservation: unless one named a figure which was so extraordinarily large that it would obviously be sufficient; and of course that would alarm the people. That may bring out our point.

Hon. Mr. ABBOTT: I think that is correct.

The further point that I think was raised by Mr. Macdonnell at a recent meeting of the committee, at not all of which I was able to be present, he took the position, as I understand it, that there should be incorporated in the foreign exchange control bill provisions stating the specific circumstances under which, and the limits within which, persons affected by the bill will as a matter of right be permitted to export capital from Canada or to enter into other transactions which are subject to supervision or control by the Foreign Exchange Control Board.

Mr. MACDONNELL: I wonder if that is a confusion of two points I made.

Hon. Mr. ABBOTT: Perhaps I might continue with this. This is a prepared statement and perhaps you would see whether it actually reflects your view. In particular, Mr. Macdonnell has asked the government to consider amending the bill in two respects:

(a) to allow an emigrant from Canada to export capital up to some designated limit as a matter of right; and

(b) to incorporate the general principles under which other exports and imports of capital will be permitted.

Mr. MACDONNELL: That is right.

Hon. Mr. ABBOTT: The position of the government with respect to these proposals is this. It believes that the continuation of foreign exchange control is necessary for the reasons given by the Minister of Finance in his statement on the resolution preceding the introduction of the foreign exchange control bill. It also believes that the system of exchange control which is established should be effective to accomplish its objects.

The question of the circumstances under which and the amount to which capital may be exported from Canada is a matter of policy which must necessarily be determined by the government in the light of the general exchange position as it exists from time to time. The policy presently being administered by the Foreign Exchange Control Board—and it will be continued so far as possible—is a liberal one and the intention is to pursue as liberal a policy as the circumstances warrant. No one can predict what the foreign exchange position will be in the future, however, and if the present measure is to be effective in accomplishing its purposes the government must be free to change any of its foreign exchange control policies to meet changing situations as and when they occur.

Accordingly, the government cannot accept amendments to the foreign exchange control bill of the character proposed by Mr. Macdonnell which would have the effect of limiting the government's ability to adapt its foreign exchange control policy in order to deal quickly and effectively with situations which may arise in the future.

Mr. MACDONNELL: Mr. Chairman, again I have no desire to take up the time of the committee with argument at this stage. But I want to point out that it seems to me that entirely overlooks one thing which I said, and which I think I made perfectly clear. I said that I recognized there might have to be changes from time to time. I think I was very specific in that. But again I am not going to continue the argument. I just want to make this point very clear. I was going to ask about it anyway. As I see it, this definitely means that the government feels that no principle of gradualism can be introduced into this. It is either whole-hog or nothing. If this bill goes for five years, as I have suggested—and I hope it will not be so—for five years we will have this same control. I suggest to the minister—I think the minister was in the room yesterday when I suggested this—that ten years ago these powers would have horrified us. During the war we needed them. The war is now over. What is happening now is that they are going to be imposed upon us for an indefinite period in peacetime. All I pleaded for was some gradualism, some beginning of the way out. I make the point that I was very explicit as to the possibility of changing it. I am just asking as to the position now. I take it that this answer really means that the government sees no possibility of introducing any gradualism into this.

Hon. Mr. ABBOTT: I would not quite agree with that.

Mr. MACDONNELL: Is not that the effect?

Hon. Mr. ABBOTT: Put it this way, that the government feels that in a matter of this kind it must retain freedom of action; that the exchange controls must be sufficiently flexible to allow continued relaxation, such as you suggest, if the circumstances warrant it, but which do not restrict the government in taking a necessary decision as to exchange policy.

Mr. MACDONNELL: Might I make this clear. I am admitting that we need exchange control for a while. At any rate, I am not disputing that; and I went a long way when I pleaded for this small right as of right. As I said, let the

Foreign Exchange Control Board fix what it thinks is safe based on experience. The amounts involved are quite trivial, or I understand that they have been quite trivial. I suggested to let them fix the amount. I pictured it to myself merely as the opening of the wedge or the beginning. I said, let them change the amount from time to time. I am ready to do anything to make it safe. May I say this, and this is the last remark I have to make. My thought is for the beginning of something as of right.

On the other point, the point of publicity, the minister's answer there to me is not convincing at all because I suggested that the board's policy should be known. I did not suggest it should be rigid. I did not suggest it should be unchangeable. I merely suggested as far as possible it should be known. I am suggesting again, with respect, that here we have another concentration of power, with the almost inevitable desire for a certain measure of secrecy.

Hon. Mr. ABBOTT: Would you like me to ask Mr. Rasminsky to comment on your reference to the policy of the board being unknown?

Mr. MACDONNELL: I should be glad to hear him.

The WITNESS: I should like to summarize the various forms of publicity which the Board has given to its policies and procedures.

In the first place, we have issued five bulletins explaining different aspects of exchange control. Bulletin No. 1, Foreign Exchange Control, was issued in May, 1941. It outlined briefly the reasons for exchange control, the main provisions of the Foreign Exchange Control Order and Regulations and the general policies administered by the Board. The number of copies printed was 56,000 English and 12,000 French.

Bulletin No. 2, Exports of Goods, was issued in 1940 and revised in 1941 and 1942. It described in detail foreign exchange control policies and procedures in connection with exports of goods. The number of copies printed was 80,000 English and 25,000 French.

Bulletin No. 3, Imports of Goods, was issued in similar numbers and described in detail foreign exchange control policies and procedures in connection with imports of goods.

Bulletin No. 4, Travel by Residents of Canada, was issued in 1941 and revised in 1942. It described in detail the travel policy in force at the time. The number of copies printed was 700,000 English and 150,000 French.

Bulletin No. 5, Securities Transactions, was issued in 1941. It outlined foreign exchange control policies and procedures relating to transactions in securities. The number of copies printed was 55,000 English and 7,000 French.

Secondly, the Board printed and distributed 8,000 copies in English and 2,000 copies in French of an article I wrote on "Foreign Exchange Control in Canada: Purposes and Methods" which was published in "Canadian War Economics" by the University of Toronto Press in 1941.

Third, there is the Foreign Exchange Control Board Report to the Minister of Finance dated March, 1946, which is in the hands of the members of the committee. This describes in detail the operations of the Board to the end of 1945 and summarizes the policies administered by the Board. We have printed 15,000 copies in English and 21,500 in French.

Fourth, from time to time press releases and public circulars have been issued dealing with new developments in foreign exchange control policies and procedures; 50 or 60 such press releases and public circulars have been issued.

Fifth, the chartered banks have wide authority to approve transactions and have detailed instructions as to the procedure to be followed. The great bulk of foreign exchange transactions can be approved by the banks without special reference to the Board.

Sixth, chartered banks, trust companies, members of Canadian stock exchanges and of the Investment Dealers' Association have wide authority to approve security transactions. Detailed instructions have been issued to them and are available to the public.

Finally, in order that the Order and Regulations might be readily available to the public in convenient form, consolidations were printed in English and French in 1941, 1942 and 1944 and given wide free circulation.

Mr. JACKMAN: Mr. Minister, while I support the suggestion of Mr. Macdonnell that we should like to have the principle established that an emigrant can take with him a minimum fixed amount, I should like to ask in that regard if we put it as low as \$5,000, could that possibly seriously interfere at almost any time—even during a crisis period when the regulation or permission might well be withdrawn and be acceptable to everybody in the country—with the operation of the fund? Let us say we were to put in statutory form the right for an emigrant to take out \$5,000 with him once his residence is established elsewhere. Would that interfere with the operation of the fund?

Hon. Mr. ABBOTT: I think that was fairly fully discussed when this question was up before, Mr. Jackman. Mr. Rasminsky, as I recall it, made some comments on it. One thing it would prevent would be, were it necessary, the reimposition of travel restrictions. I, for one, do not see how we could do that if we were allowing every emigrant to take \$5,000 out. I cite that as one example. I am inclined to think it would. If you care to have Mr. Rasminsky comment on it, all right. I am not really expert enough to comment on this.

Mr. JACKMAN: Might I put another question and if Mr. Rasminsky wishes to comment, all right. Would it make any difference to the public whether or not the emigrant merely presented an application to the board for United States exchange with which to transfer his funds? That is the first situation. The second situation would be where the emigrant had already United States securities outside of the fund controlled by the board and would make no draft on the exchange situation. He would simply buy Canadian securities which he would have at some time in his life sold in the United States and acquired American securities. Would it make any difference to the operation of the board if this amount of what I might term surplus funds over and above the board's pool, were allowed to be taken with him if he established residence in the United States?

The WITNESS: I think it does make a difference from two points of view, Mr. Jackman. The first is that, as has been developed in previous discussions of this committee, the holdings of United States securities by Canadians are an ultimate reserve of United States funds in that they can be called up in a time of crisis and requisitioned. Therefore to permit a Canadian who has United States securities to be treated differently would be to alienate United States assets from the Canadian economy, and in addition, discrimination would be involved in favour of the particular Canadian who happened to choose to invest his assets outside this country as compared with the Canadian who chose to invest his assets in Canada. Another difference that it makes is in respect of income on these securities. There is a continual flow of income from Canadian holdings of American securities and that would be forgone if differential treatment were given.

Mr. JACKMAN: The discrimination, of course, is perhaps outweighed by the fact that the Canadian has already had the foresight to make provision for American assets on his contemplated move at a time when it did not interfere with the exchange position of the board.

Hon. Mr. ABBOTT: I wonder, Mr. Jackman, if you would allow me to finish the points on which I desire to comment, because I will have to leave very shortly.

Mr. JACKMAN: Certainly.

Hon. Mr. ABBOTT: The last one was, I think, the question of putting a time limit on the duration of this bill, which was first raised by Mr. Macdonnell on the second reading. As to that, I have very little to add to what I said in the early stages of the committee hearing, namely that I would be reluctant personally to see a time limit put on the duration of this bill. With Mr. Macdonnell I would hope it could be repealed just as soon as possible; and the limit which, after consideration and discussion, I feel would have to be put on might be misleading. I would not be prepared to consider or the government would not be prepared to consider, if we put a limit in, a limit of less than five years. I do not like putting a limit of five years in the bill. I would prefer to leave it free to parliament to repeal it, if circumstances permitted, before that time. I suggest that we allow the bill to stand as it now is with no limit. But if there is a strong feeling that a limit should be put on, I would be prepared to agree to a limit of the order of five years.

Mr. JACKMAN: You would be prepared to agree to that?

Hon. Mr. ABBOTT: Yes. What I would suggest is that it shall expire on such date after the 1st day of January, 1951, as may be fixed by resolution of the Senate and House of Commons, respectively. That would leave it free for anybody to introduce a resolution into the House. It would not have to be a government measure. I do not feel that I could go any further than that. If I may urge my own personal view, I think it might be better to leave it open for repeal before that time if circumstances are such that it could be done.

Mr. MACDONNELL: I will be very brief. I hold the opposite view very earnestly. I think as a matter of accident, it almost appears, the socialists are not here this morning. I feel very earnestly, more earnestly than I can possibly say, that in passing this bill we are passing a measure which has one of the characteristics of the socialist state. Do not let us fool ourselves. We have had very largely a socialist state during the war. That was inevitable. We have built up a very fine group of men who have exercised enormous power. They have exercised it very well. We have grown accustomed to it. We believe in them. As I said in this room before, they would be superhuman—indeed they would be unhuman—if they believed this power could suddenly be transferred over. I do not believe it could be suddenly transferred over. I am suggesting there is a very strong reason which has arisen since we began our discussion for the bill being for the duration of one year, and that is the passage of the American loan under which, as you will remember, there is provision that Great Britain has to free its exchanges, if I understand it correctly, within a year. I suggest that raises the point—I should have said on current account; Mr. Jackman corrects me. I suggest that is a very strong reason for your reconsidering our position at the end of the year; and I am all the stronger in that view, infinitely stronger in that view because of the principle of gradualism. The government has not been able to accept it. In other words, it is whole-hog or none. As I said when the matter came up in the House, to me there is a definite psychological difference between leaving this to be repealed when parliament decides to repeal it and, on the other hand, leaving it with the onus of justifying itself a year from now. The second point is a point I deeply regret in this thing, but I believe it is inevitable. I want to make this very clear. I believe that many members of the House, if they vote for this bill, will do so without really reflecting on the underlying principle behind it. I mean, freedom is a funny thing. It is a difficult thing to manage. It means that people have got to reflect on it and understand it. It can slip away. I was very interested in what Mr. Rasminsky said this morning. We have here a police state bill in many of its aspects.

The WITNESS: Excuse me, I did not say that.

Hon. Mr. ABBOTT: That was your word, Mr. Macdonnell.

Mr. MACDONNELL: Wait a minute, please. Let me put it this way. I said that  
The WITNESS: Yes.

Mr. MACDONNELL: Let me put it this way.

Hon. Mr. ABBOTT: You asked Mr. Rasminsky to comment on it.

Mr. MACDONNELL: Wait a minute. I think Mr. Rasminsky bore me out to this extent, in saying that this provision was either common to or a sort of summation of the various Acts of various countries. I do not want to overstate this. Let me put it this way again. If there has been any power left out of this, it is hard for me to believe it. To use my own phrase, this is characteristic of a police state, and I defy anybody to deny that. I suggest therefore to people who believe in freedom and there are many in this room who do—that there is no need of our giving up our freedom; and that is what we are doing here now, for five years.

Then there is just one final point. No one in this room believes—to mention only those who are here this morning that Mr. Rasminsky and those associated with him are going to turn tough and behave like Dr. Schacht or any such nonsense as that. I am not trying to suggest any such nonsense. But what I am going to suggest is that when free people hand over powers, they ought to do it jealously. In my opinion, there is no earthly need to do that for five years.

Hon. Mr. ABBOTT: We are not doing it for five years. It may be repealed next session if parliament wants it repealed. That is the point that should be emphasized. I cannot but take exception to that statement that it has the characteristics of a police state. I have no personal experience with the operations of a police state, but I do not consider that the powers which are asked for in this bill are in any essential respect different from a great many powers which the government has exercised for years in the interest of its citizens.

Some Hon. MEMBERS: Hear, hear.

The CHAIRMAN: On this point of the principle of gradualism, I only want to take a moment. I feel just as strongly—

Hon. Mr. ABBOTT: Mr. Chairman, I shall have to leave shortly to go to the House, so would you permit me to say a word here?

The CHAIRMAN: Yes.

Hon. Mr. ABBOTT: On that point that the Washington agreement required that they relax exchange control, here is a statement by the Chancellor of the Exchequer on 12th December, 1945:—

In the Washington Agreements, references to exchange control are, generally, to exchange control of current transactions. In the Bretton Woods Agreements, exchange control of capital movements, as distinct from current transactions, is not only permitted but positively enjoined on all members—which is a very remarkable and interesting fact. In the view of His Majesty's Government this is an admirable provision, and we intend to live up to it.

The CHAIRMAN: Gentlemen, it is now 5 minutes to 11—

Mr. MACDONNELL: I would move as an amendment that it should be reduced to one year, in order to bring the matter to an issue.

The CHAIRMAN: In view of the time, it being 5 minutes to 11, I shall restrain myself from commenting on the principle of gradualism other than to say this, that I believe gradualism can come much more quickly when it comes as a result of exchange control board regulations which, if they go a little too much in advance of current events, can be modified immediately.

Shall section 11 carry?

Mr. HAZEN: I do not want to delay these proceedings, but there is one matter I would like some light on, and it is this: how many Canadians gave notice that they were going to move to the United States during the last sixteen months, and how many of that number have applied to the board for permission to take their funds with them? And of that number how many were allowed to take funds and to what amount?

The WITNESS: Is the question how many persons have been permitted to take funds to the United States?

Mr. HAZEN: No, how many Canadians moved to the United States in the last sixteen months and have resided there and of that number how many applied to the board to take funds with them?

The CHAIRMAN: Excuse me one moment, Mr. Hazen, Mr. Macdonnell wishes to go into the House and before he goes he wishes to introduce a motion as to the duration of the bill. Do you mind allowing your question to stand for a moment?

It is moved by Mr. Macdonnell that a section be added to the bill restricting its operation to thirty days after the next meeting day of the next session of Parliament.

All those in favour of the motion please signify?

The motion is lost.

The WITNESS: As I understand Mr. Hazen's question, he has asked how many people have moved to the United States in the last sixteen months to reside there and what amount of money they have applied to be permitted to take with them. I am sorry I have no information on the first question. The Foreign Exchange Control Board does not keep track of the movements of persons. I can say how many people and how much property was involved in the cases where change of status was approved by the board during this period. In 1945 the board approved change of status to residence in the United States for 10,173 persons, having Canadian dollar bank balances and securities of approximately \$16,000,000 and other assets of approximately \$12,000,000. In the first six months of this year the Foreign Exchange Control Board has approved applications for change of status in the number of 7,758 applications, having Canadian dollar bank balances and securities of approximately \$13,000,000 and other assets of approximately \$9,000,000.

*By Mr. Hazen:*

Q. Do I understand from that that you permitted them to take \$16,000,000 of bank balances out of this country with them in 1945?—A. That is the extent of the board's authorization, yes.

Q. And \$12,000,000 more of their securities?—A. That is right.

The CHAIRMAN: The minister has suggested an amendment to section 11 and it is to strike out the words "deputy postmaster general" in the sixth and seventh lines of subsection (1) and substitute in lieu therefor the words "director of the Post Office Department".

Mr. RINFRET: Director of operations, Post Office Department.

The CHAIRMAN: Yes, director of operations, Post Office Department.

Mr. JACKMAN: Does that designate a particular individual?

Mr. RINFRET: It is in order to have a French-Canadian on the board; that is all.

The CHAIRMAN: Shall the amendment carry?

Carried.

Shall the section as amended carry?

Carried:

Mr. HAZEN: There is one other question I would like to ask in regard to this matter. Mr. Rasminsky said that 10,173 persons applied—

The WITNESS: No, sir, those were the approvals; the number of applications approved.

Mr. HAZEN: They were not the number of applications?

The WITNESS: No, sir. I have not that information here.

The CHAIRMAN: Would you like to have that information by letter?

Mr. HAZEN: I would like to have it put on the record.

The CHAIRMAN: Are you willing to have the secretary of the board supply that information and we will put it on the record?

Mr. HAZEN: Yes.

Mr. HAZEN: There is one other question I wanted to ask—

The WITNESS: Before we leave that, the secretary of the board tells me that he is not certain that there is in the board a complete record of all refused applications, we will undertake to supply all the information we have on the subject but it may not be precisely what is requested.

*By Mr. Hazen:*

Q. Of the 10,173 persons who applied and were allowed to take out the amount of money you mentioned, were they allowed to take out all their other assets?—A. Not in each case, sir. In the case of applications involving large amounts where a change of status is approved—and I gave the committee some time ago a fairly complete statement of the circumstances in which change of status would be approved—the individuals are allowed to take out their assets at the rate of \$25,000 a year.

Q. What about cases where they were not large? We had that discussion about a farmer, and you said if his assets were \$10,000 or \$15,000 you would allow only \$5,000 to be taken out. You would not call that a large amount. I have in mind people of that class. How many of them are there?—A. One has to distinguish, Mr. Hazen, between two types of cases; cases where an application for change of status is approved by the board for the reasons I gave earlier in my evidence and cases where an application for a change of status is refused by the board. The figures that I have given relate to cases of applications for change of status which have been approved by the board. The application of anyone with assets under \$5,000 would be approved. In addition in any case where an application for change of status is refused by the board, the individual is nonetheless permitted to withdraw \$5,000 of his assets. In point of fact the board is administratively following the policy regarding change of status which Mr. Macdonnell asked should be incorporated in the legislation. The figures for the individuals who were refused change of status—

Q. Could we get those figures? Could we get the number and what they were allowed to take out of the country? I am trying to straighten this out as well as I can.—A. The secretary tells me, Mr. Hazen, that we do not keep records of refused applications of that type, and the information would involve going through—

Q. You mentioned giving them permission to take money out of the country. Do you not make a record of that?

The CHAIRMAN: Just to shorten this matter, what are the circumstances under which you would grant and what are the circumstances under which you would refuse a change of status?

Mr. HAZEN: I am trying to get the figures.

Mr. JACKMAN: Mr. Hazen wants to know whether even if change of residence is not permitted you still allow something?

The WITNESS: That is right.

*By Mr. Hazen:*

Q. If the change of status is refused you permit the person to take out \$5,000 from the country. What I was trying to get at was how many persons you refused and what amount of money you allowed those persons to take out in the last sixteen months?—A. I am sorry, but to keep complete records of all the refusals of all applications that are made to the board—to keep complete records in a form that would make available information of this sort—would require a much larger statistical staff than the board has thought it necessary to have. I am sorry that records on that particular point are not available, and it would require an extensive search of the board's files to produce that information.

*By Mr. Jackman:*

Q. Have you had to refuse a substantial number—perhaps as many as you have allowed, over the last six months?—A. No, the great majority of the applications for change of status have been approved.

*By Mr. Hazen:*

Q. If your records show the number of persons refused do they not show the amount of funds that were permitted to be taken out of the country by those people to whom you had refused change of status?—A. We certainly have that information in the board's files. We have not included that in the statistics we have kept. I would certainly like to get the information for Mr. Hazen if it is available and I shall discuss this matter with the officer of the board who deals with change of status applications to see whether any information along this line can be made available.

Mr. BREITHAAPT: I agree with Mr. Hazen that it would be interesting to know that as it affects the past, but I am more interested in future policy.

Mr. JACKMAN: Would it be too much trouble to get those figures for the last six months?

Mr. TARR: The only way we could get those figures would be to search several hundred thousand files in order to see which files this type of application is contained in.

The WITNESS: Our files are name files; that is applications are filed under the name of the applicant; and limiting the information wanted to six months would not make any difference; we would still have to search through all the board's files.

Mr. BREITHAAPT: Perhaps that could be arranged for the future?

The WITNESS: Yes, I shall be glad to do that and to make the information available to the committee on some future occasion.

Mr. BREITHAAPT: I suggest that.

*By Mr. Jackman:*

Q. I did ask Mr. Rasminsky—and he was about to answer—for a breakdown of the \$500,000,000 capital investment by United States residents in Canada during the last five years, and I wonder if that could be tabled?—A. The Dominion Bureau of Statistics collects and publishes a certain amount of information on non-resident security transactions. The information that the Foreign Exchange Control Board has on that particular question I can give at once, because it is in summary form. The increase of approximately \$480,000,000 in American holding of Canadian securities from the 15th of September, 1939, until the end of 1945 was divided into four approximately equal parts. Those approximately equal parts consisted of: (1) dominion government securities; (2) Canadian National Railway securities; (3) provincial and municipal bonds; (4) corporation securities.

Q. It does not include investments by Americans in branch plants?—A. No. Investments by Americans in branch plants fall under two headings: (1) the re-investment of earnings which they made in the course of the war, which amounted to about \$230,000,000; and (2) new investments by Americans in branch plants in the course of the war, which was in the general neighbourhood of \$50,000,000 to \$60,000,000. That amount of \$50,000,000 to \$60,000,000 is not included in the figure of \$480,000,000 representing the increase in American holdings and securities.

Q. Would that include the large aluminum development?—A. It would include all direct investments.

\* The CHAIRMAN: Coming to section 25, the committee asked that section 25 stand and requested the opinion of the Department of Justice. I have a letter from the Deputy Minister of Justice. May I table this and have it appear in the record?

Ottawa, July 23, 1946.

J.R. 11-450-45

Re: Bill 195 to enact the Foreign  
Exchange Control Act

DEAR MR. CLEAVER:

The proposals contained in Bill 195 are designed to maintain the value of Canadian currency in terms of the currencies of other countries, particularly those with which Canadians enjoy commercial relations. The objects of the measure are to be attained by fixing exchange rates, regulating transactions in foreign currency and in Canadian currency dealt in by non-residents and regulating exports and imports and transactions in securities between residents and non-residents. A Control Board operating under the direction of the Minister of Finance is to administer the Act. Persons engaged in business are required to furnish full information. Persons engaging in transactions in foreign exchange are required to keep records of such transactions and to furnish information. Enforcement provisions enable the Board to exercise control over the property of any person where this is necessary to insure observance of the Act and define as criminal offences acts or omissions which are breaches or evasions of the statute punishable by fine or imprisonment.

Such a legislative proposal appears to me to be clearly beyond the power of a provincial legislature. In any case, the exclusive authority of parliament to legislate in relation to currency, legal tender, banking, bills of exchange, regulation of trade and commerce and criminal law would seem to me to be quite adequate to support the bill from a constitutional point of view.

Such a system of control as is envisaged requires various ancillary provisions for the purpose of preventing the scheme of the Act from being defeated. I refer to the measures to regulate and prohibit transactions in property and securities between residents and non-residents. If parliament adopts the legislation, it will be on the basis that it deems it necessary in this connection to prohibit and regulate these transactions ordinarily within the exclusive jurisdiction of the legislatures of the provinces. I do not doubt that it is open to parliament to deal with such matters as part of the projected scheme of regulation and once the statute is enacted the provincial legislatures would be precluded from interfering.

Your very truly,

(Sgd.) F. P. VARCOE,

*Deputy Minister.*

Shall section 25 carry?

Carried.

The next section which was left over was section 35, subsection (3). That has already been taken care of by the minister's amendment. Shall subsection (3) carry?

Carried.

Next we come to section 41. As to section 41 the minister has amendments to subsections (1) and (6) which I shall read:—

41(1) The Board and any inspector designated by the Board for the purpose may conduct inquiries or investigations into matters relating to transactions to which this Act applies and may require any person to furnish information relevant to an inquiry or investigation and may summon before him any person and may examine him and require him to give evidence orally or in writing, on oath or, if he is entitled to affirm, on solemn affirmation or by statutory declaration, on any matter pertinent to such inquiry or investigation.

I shall read the other amendment.

Mr. JACKMAN: "The board and any inspector . . ."; should it not be "the board or any inspector"?

The CHAIRMAN: The wording is "and"; I suggest it should be "and/or". The subsection would then read "the board and/or any inspector designated . . ." and so on.

Subsection (6) reads:—

41(6) Any person who is examined and required to give evidence in the course of an inquiry or investigation under this section shall be entitled to be represented by counsel at such examination.

Mr. LESAGE: Would it be possible to have a special authorization in each case? That is the point I am raising.

Mr. TARR: Under this section as amended it would be the intention to designate certain inspectors to conduct inquiries generally.

Mr. LESAGE: Would it not be possible to have a special authorization in each case?

Mr. TARR: I do not see how it would be practicable.

(Discussion followed off the record.)

The CHAIRMAN: Gentlemen, we have cleared now every section in this bill except the contentious sections 41 and 42. May I suggest that the members who are specially interested confer with the solicitor of the board and the secretary of the board and we will meet this afternoon and at the opening of that meeting we will finally clear up sections 41 and 42.

Is it your wish that we should proceed with the small loans matter this afternoon?

Mr. JACKMAN: We have the budget resolutions in the House.

The CHAIRMAN: Well, we will meet at 4 o'clock to consider these two sections.

The committee adjourned to meet again at 4 o'clock p.m.

The committee resumed at 4 o'clock p.m.

The CHAIRMAN: Gentlemen, we have a quorum. We are dealing this afternoon with sections 41 and 42. Mr. Lesage moves that an additional subsection be added to section 41, subsection (8), which reads as follows:—

41(8) No person shall be arrested for an offence under this section without a warrant.

The Department of Justice has indicated the viewpoint that there was never the intent that there should be power of arrest under this section without a warrant. The addition of this clause meets with the approval of the minister. All those in favour?

Carried.

Mr. LESAGE: Is not there another one?

The CHAIRMAN: That covers subsection (8). Then the minister has recommended that subsection (1) be amended, and that was read into the record at our meeting this morning. Shall I dispense?

Mr. HAZEN: Is not that the amendment we had this morning?

The CHAIRMAN: Shall subsection (1) be amended accordingly, it reads:

41(1) The Board or any Inspector designated by the Board for the purpose may conduct inquiries or investigations into matters relating to transactions to which this Act applies and may require any person to furnish information relevant to an inquiry or investigation and may summon before him any person and may examine him and require him to give evidence orally or in writing, on oath or, if he is entitled to affirm, on solemn affirmation or by statutory declaration, on any matter pertinent to such inquiry or investigation.

As regards subsection (6) the minister suggests a new subsection which reads as follows:—

41(6) Any person who is examined and required to give evidence in the course of an inquiry or investigation under this section shall be entitled to be represented by counsel at such examination.

Carried.

Shall section 41 carry?

Mr. FRASER: I should like to ask a question. I have not attended all the meetings, but I should like to ask how a fine is placed on a person who is caught evading the exchange.

The CHAIRMAN: You will find that in section 60.

Mr. FRASER: I asked that question because there is a man down in Nova Scotia who was fined \$1,600, and I wondered what was the total amount involved.

The CHAIRMAN: It is in section 60: "Not exceeding double the value of the property." Shall section 41 carry?

Carried.

Let us take section 42. The committee asked that subsection (3) and (4) be allowed to stand. Shall subsection (3) carry?

Mr. LESAGE: I have just talked with Mr. Tarr and Mr. Mundell about this matter. The objection we had to subsections (3) and (4) was that any inspector of customs or excise who is by virtue of section 40 an inspector of the board should not have the discretion of seizing any books that they see fit to seize, and

I think Mr. Tarr and Mr. Mundell are ready to accept that subsection (1) of section 40 be amended by deleting in line 29, "every inspector of customs and excise shall be an inspector of the board."

Mr. TARR: That is right.

The CHAIRMAN: Will you repeat that?

Mr. LESAGE: I move that in section 40(1) the words in line 29, "every inspector of customs and excise shall be an inspector of the board" be deleted.

The CHAIRMAN: It has been moved by Mr. Lesage that section 40, subsection (1), shall be amended by deleting all the words after the word "Act" in the second line thereof.

Mr. IRVINE: Would not that open the matter up for discussion again? I do not want to be meticulous.

The CHAIRMAN: By unanimous consent of the committee Mr. Lesage moves that all words after the word "Act" in the second line of section 40, subsection (1), be deleted.

Mr. BREITHAAPT: It left it too wide open before, was that the trouble?

Mr. LESAGE: Yes, too many powers were given to them.

Mr. BREITHAAPT: Too many for people who were not accustomed to that kind of work?

Mr. LESAGE: That is why we want to restrict it to inspectors designated by the board.

The CHAIRMAN: Both Justice and the secretary of the Foreign Exchange Control Board accept this amendment. Shall the amendment carry?

Carried.

We have now to deal with section 42, subsections (3) and (4). They were asked to stand. Shall subsections (3) carry?

Mr. LESAGE: They were asked to stand because of the same objection and they are covered by the amendment now.

The CHAIRMAN: Shall subsections (3) and (4) carry?

Carried.

Shall the preamble carry?

Carried.

Shall the title carry?

Carried.

Shall I report the bill?

Carried.

Mr. JACKMAN: On division?

The CHAIRMAN: On division and as amended.

Now, gentlemen, we shall have to make some arrangements with regard to our meetings on the small loans matter. I warned the interested parties we would not be ready to hear them this afternoon because some of our members wanted to attend on the budget resolutions, but should we go on with that work to-morrow morning?

Mr. IRVINE: Would it be possible to postpone that until we get through with the bulk of the resolutions on the budget?

The CHAIRMAN: I think that is a wise suggestion, and we will not meet again this week.

The committee adjourned to the call of the chair.













