

Room 10-A.
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Canada. Parl. H of C. Standing
Comm.on Banking and Commerce,
1945.

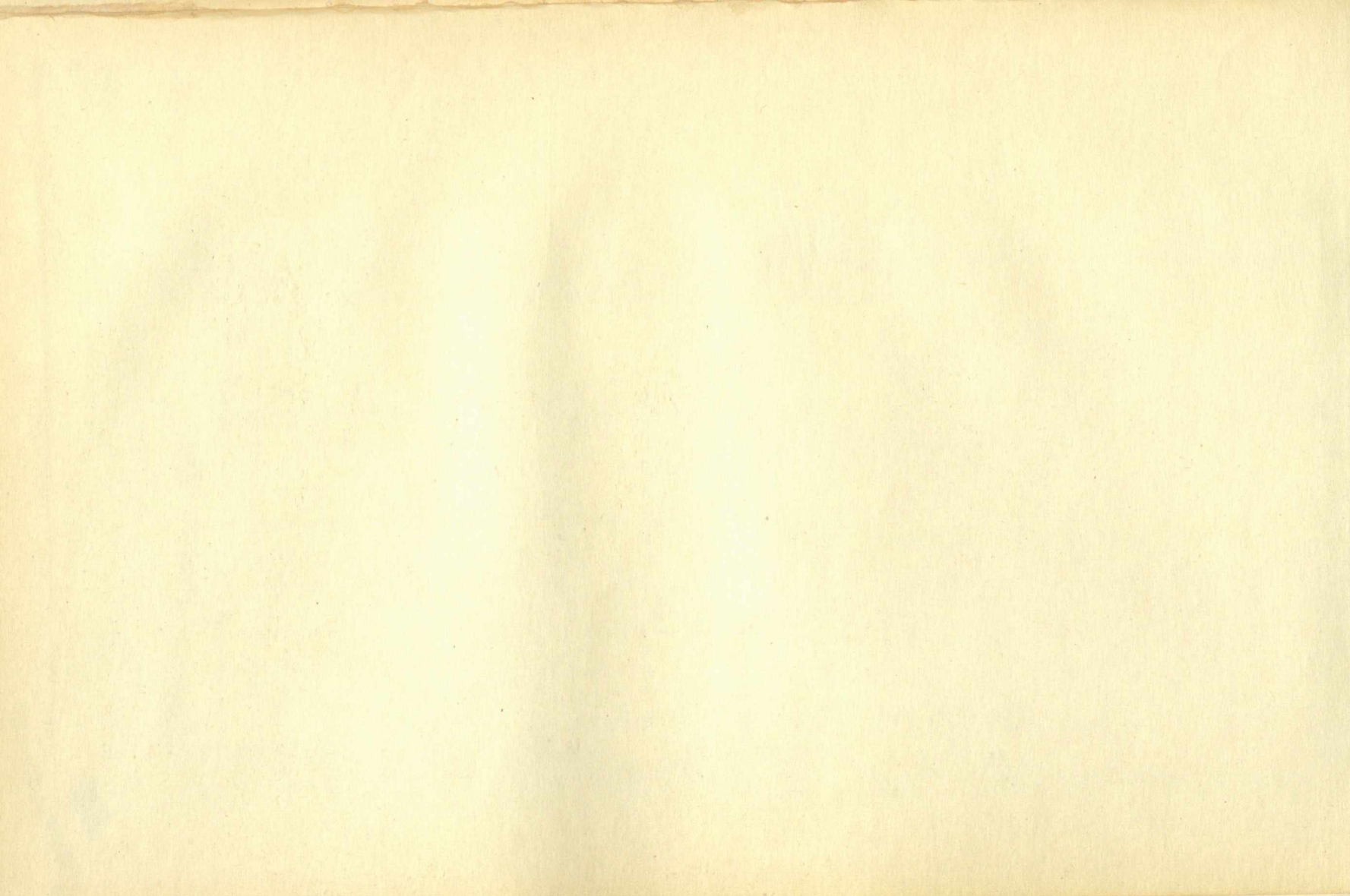
Bill no.238.

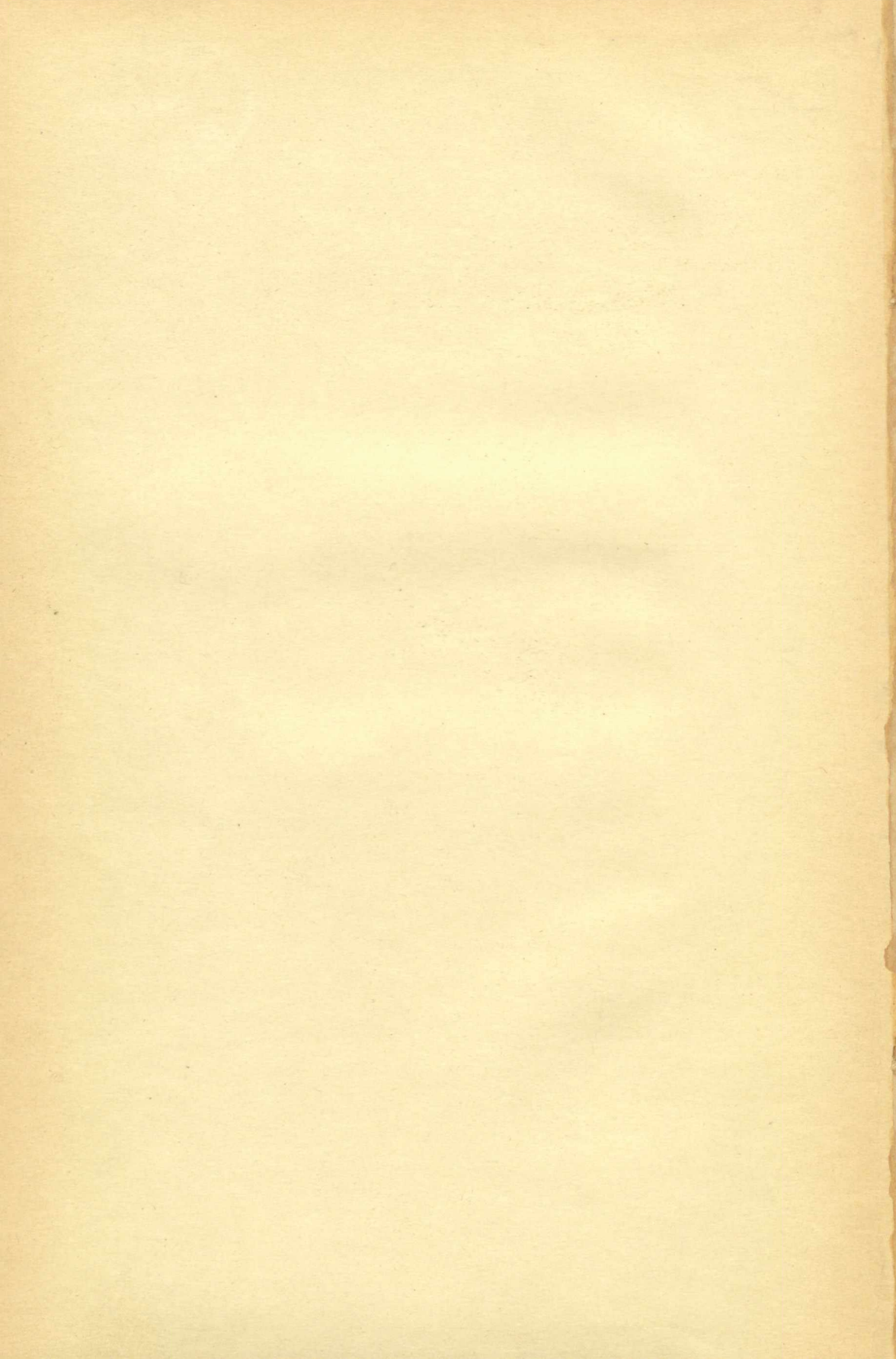
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1945.





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SESSION 1945
HOUSE OF COMMONS



STANDING COMMITTEE
ON
BANKING AND COMMERCE

BILL No. 238

An Act for carrying into effect the Agreements for an International Monetary Fund and an International Bank for Reconstruction and Development

MINUTES OF PROCEEDINGS AND EVIDENCE
AND REPORT TO THE HOUSE

TUESDAY, DECEMBER 11, 1945
WEDNESDAY, DECEMBER 12, 1945
THURSDAY, DECEMBER 13, 1945

WITNESSES:

Mr. Louis Rasminsky, Chairman (Alternate), Foreign Exchange Control Board.
Dr. W. A. Mackintosh, A/Deputy Minister of Finance.

ORDERS OF REFERENCE

HOUSE OF COMMONS,

WEDNESDAY, October 10, 1945.

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

Messrs.:

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

(Quorum 15)

ATTEST.

ARTHUR BEAUCHESNE,
Clerk of the House.

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.

ATTEST.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, November 29, 1945.

Ordered,—That the quorum of the said Committee be reduced from 15 to 10 members.

Ordered,—That the said Committee be authorized to sit while the House is sitting.

ATTEST.

R. T. GRAHAM,

Assistant Clerk of the House.

TUESDAY, December 11, 1945.

Ordered,—That the said Committee be authorized to print from day to day 500 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, December 11, 1945.

Ordered,—That Bill No. 238, An Act for Carrying into Effect the Agreements for an International Monetary Fund and an International Bank for Reconstruction and Development, be referred to the said Committee.

ATTEST.

ARTHUR BEAUCHESNE,

Clerk of the House.

REPORTS TO THE HOUSE

(Relevant to Bill No. 238)

FIRST REPORT

WEDNESDAY, November 28, 1945.

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;
2. That it be authorized to sit while the house is sitting.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

SIXTH REPORT

TUESDAY, December 11, 1945.

The Standing Committee on Banking and Commerce begs leave to present the following as a sixth report:—

Your Committee recommends that it be authorized to print, from day to day, 500 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.

SEVENTH REPORT

THURSDAY, December 13, 1945.

The Standing Committee on Banking and Commerce begs leave to present the following as a seventh report:—

Your Committee has considered the following bills and has agreed to report them without amendment:

Bill No. 241 (Letter P8 of the Senate), intituled: "An Act to amend The Canadian and British Insurance Companies Act, 1932".

Bill No. 242 (Letter Q8 of the Senate), intituled: "An Act to amend The Foreign Insurance Companies Act, 1932".

Your Committee has also considered Bill No. 238, intituled: "An Act for Carrying into Effect the Agreements for an International Monetary Fund and an International Bank for Reconstruction and Development" and has agreed to report it with amendments.

A printed copy of the evidence taken in respect of Bill No. 238 is tabled herewith.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

Room 429,

TUESDAY, December 11, 1945.

The Standing Committee on Banking and Commerce met this day at 4 o'clock p.m. Mr. Hughes Cleaver, Chairman, presided.

Members present: Messrs. Belzile, Black (*Cumberland*), Blackmore, Brardette, Breithaupt, Cleaver, Coldwell, Dechène, Dionne (*Beauce*), Dorion, Fleming, Frazer, Fulton, Gour, Hackett, Harkness, Hazen, Irvine, Isnor, Jackman, Jaenicke, Jutras, Lafontaine, Low, Macdonnell (*Muskoka-Ontario*), MacNaught, Manross, Marier, Marquis, Maybank, Mayhew, Michaud, Nixon, Quelch, Rinfret, Stewart (*Winnipeg North*), Thatcher.

In attendance: Mr. Louis Rasminsky, Chairman (Alternate), Foreign Exchange Control Board; Mr. R. B. Bryce, Financial Investigator, Department of Finance.

The Committee took into consideration the following Bill which had been referred to it this day.

Bill No. 238—An Act for Carrying into effect the Agreements for an International Monetary Fund and an International Bank for Reconstruction and Development.

The Chairman read the Order of reference of the House of Wednesday, 10th October relating to the composition of personnel of the Committee, and the power of the Committee to send for persons, papers and records.

A copy of a white paper dealing with the United Nations Monetary and Financial Conference held at Bretton Woods, New Hampshire, U.S.A., July 1 to July 22, 1944 and including the Final Act, was distributed to each member of the Committee.

After some discussion about the procedure to be followed, the Committee agreed that Mr. Louis Rasminsky, Chairman (Alternate) of the Foreign Exchange Control Board be called.

The Chairman introduced Mr. Rasminsky. The witness in his presentation dealt with Articles of Agreement of the International Monetary Fund.

It was agreed that the witness would continue with his presentation with particular reference to the Articles of Agreement of the International Bank for Reconstruction and Development, if possible, at the next sitting of the Committee, in the evening.

At 5.35, on motion of Mr. Lafontaine, The Committee adjourned to meet again this same day at 8 o'clock p.m.

EVENING SESSION

HOUSE OF COMMONS,
Room 277.

The Committee met again at 8 o'clock p.m. Mr. Hughes Cleaver, Chairman, presided.

Members present: Messrs. Belzile, Black (*Cumberland*), Blackmore, Brardette, Breithaupt, Cleaver, Coldwell, Dechene, Dionne (*Beauce*), Dorion, Fleming, Fulton, Gour, Hackett, Harkness, Hazen, Ilsley, Irvine, Jackman, Jaenicke, Jutras, Lafontaine, Low, Macdonnell (*Muskoka-Ontario*), MacNaught, Manross, Marquis, Maybank, Michaud, Nixon, Quelch, Rinfret, Ross (*Souris*), Sinclair (*Ontario*), Stewart (*Winnipeg North*).

Mr. Louis Rasminsky was recalled. The witness answered questions arising out of his presentation made in the afternoon.

At 10:35 p.m., on motion of Mr. Blackmore, the Committee adjourned to meet again at 11:30 o'clock a.m., Wednesday, December 12, 1945.

HOUSE OF COMMONS,
Room 277,
WEDNESDAY, December 12, 1945.

The Standing Committee on Banking and Commerce met this day at 11:30 o'clock a.m. Mr. Hughes Cleaver, Chairman, presided.

Members present: Messrs. Belzile, Black (*Cumberland*), Blackmore, Brardette, Breithaupt, Cleaver, Coldwell, Dechène, Dionne (*Beauce*), Dorion, Fleming, Fraser, Fulton, Gour, Harkness, Hazen, Irvine, Jackman, Jaenicke, Jutras, Lafontaine, Low, Macdonnell (*Muskoka-Ontario*), MacNaught, Marier, Marquis, McLraith, Michaud, Nixon, Pinard, Quelch, Rinfret, Ross (*Souris*), Stewart (*Winnipeg North*), Thatcher, Tucker.

In attendance: Mr. Louis Rasminsky, Chairman (Alternate), Foreign Exchange Control Board; Mr. R. B. Bryce, Financial Investigator, Department of Finance.

Mr. Louis Rasminsky was recalled. The witness was questioned on subjects arising out of his exposition dealing with the International Monetary Fund. His examination was suspended at 1 o'clock p.m.

At 1 o'clock p.m., the Committee adjourned to meet again at 4 o'clock p.m. in the afternoon this day.

AFTERNOON SITTING

The Committee met again at 4 o'clock p.m. this day. Mr. Hughes Cleaver, Chairman, presided.

Members present: Messrs. Belzile, Black (*Cumberland*), Blackmore, Brardette, Breithaupt, Cleaver, Coldwell, Fleming, Fraser, Fulton, Hazen, Irvine, Jackman, Jaenicke, Jutras, Lafontaine, Low Macdonnell (*Muskoka-Ontario*), MacNaught, Marier, Maybank, McIlraith, Michaud, Nixon, Quelch, Rinfret, Ross (*Souris*), Stewart (*Winnipeg North*), Thatcher.

In attendance: Mr. Louis Rasminsky and Mr. R. B. Bryce.

Mr. Louis Rasminsky was recalled.

By unanimous consent of the members, the Committee permitted Hon. John Bracken, Leader of the Opposition in the House, to address questions to the witness.

At 6 o'clock p.m. the Committee adjourned to meet again at 8 o'clock in the evening, the same day.

EVENING SITTING

The Committee met again at 8 o'clock p.m. Mr. Hughes Cleaver, Chairman, presided.

Members present: Messrs. Belzile, Black (*Cumberland*), Blackmore, Brardette, Breithaupt, Cleaver, Coldwell, Dionne (*Beauce*), Dorion, Fleming, Fraser, Gour, Harkness, Hazen, Irvine, Jaenicke, Jutras, Lafontaine, Low, MacNaught, Marquis, Maybank, Michaud, Nixon, Pinard, Quelch, Rinfret, Stewart (*Winnipeg North*).

In attendance: Mr. Louis Rasminsky and Dr. W. A. Macintosh, A/Deputy Minister of Finance.

Mr. Louis Rasminsky was recalled. The witness completed his testimony in regard to the International Monetary Fund, whereafter, he made an exposition on the International Bank for Reconstruction and Development. Dr. W. A. Mackintosh replied to certain questions asked thereon.

At the conclusion of his examination, Mr. Rasminsky agreed to table at a later sitting answers in writing to certain questions asked and which remained unanswered, and the witness retired.

Dr. W. A. Mackintosh, Acting Deputy Minister of Finance was called, examined and retired.

The Chairman, on behalf of the members, expressed to both witnesses the thanks of the Committee for their able, clear and interesting exposition of the subjects under consideration.

It was agreed that the two witnesses should be excused.

It was also agreed that at its next sitting, the Committee would proceed to the consideration clause by clause of Bill No. 238, intituled: "An Act for Carrying into Effect the Agreements for an International Monetary Fund and an International Bank for Reconstruction and Development."

HOUSE OF COMMONS,
Room 277,
THURSDAY, December 13, 1945.

The Standing Committee on Banking and Commerce met this day at 11:30 o'clock a.m. Mr. Hughes Cleaver, Chairman, presided.

Members present: Messrs. Belzile, Black (*Cumberland*), Blackmore, Breithaupt, Cleaver, Coldwell, Dechène, Dorion, Fleming, Fournier (*Maisonneuve-Rosemont*), Fraser, Hazen, Irvine, Jaenicke, Jutras, Lafontaine, Low, MacNaught, Marier, Marquis, Michaud, Nixon, Pinard, Quelch, Rinfret, Ross (*Souris*).

The Committee considered Bill No. 238, intituled: "An Act for Carrying into Effect the Agreements for an International Monetary Fund and an International Bank for Reconstruction and Development".

After some discussion on Section 2 of the Bill under study, Mr. Low moved, seconded by Mr. Blackmore, as follows:

Inasmuch as the Standing Committee on Banking and Commerce has not had sufficient time and opportunity to examine competent witnesses, and to study thoroughly the purposes, objectives, implications and possible penalties for failure of the Bretton Woods Agreements; and inasmuch as it has not been established that Canada would be well-advised, to ratify the Agreements, and, finally, because the members of this Committee have not yet had time nor opportunity fully to discharge their responsibilities to the people of Canada, therefore,

That this Committee now rise and report to the house recommending that Bill 238 be not proceeded with during the present Session of Parliament, and that the said measure be again introduced at the next session of Parliament and referred to the Committee on Banking and Commerce early enough to provide time and opportunity for the most thorough study and examination of the whole of the Bretton Woods Proposals.

It being now 1 o'clock p.m., the Chairman stated he would take under advisement the motion just made and determine whether or not such motion could be put to the Committee and he would rule thereon at the next sitting of the Committee in the afternoon.

At 1 o'clock p.m., the Committee adjourned to meet again at 4 o'clock p.m. this day.

AFTERNOON SITTING

The Committee met again at 4 o'clock p.m. this day. Mr. Hughes Cleaver, Chairman, presided.

Members present: Messrs. Belzile, Black (*Cumberland*), Blackmore, Breithaupt, Cleaver, Coldwell, Dechène, Dionne (*Beauce*), Dorion, Fleming, Fraser, Fulton, Gour, Hazen, Irvine, Isnor, Jaenicke, Jutras, Lafontaine, Low, MacNaught, Manross, Marier, Maybank, McIlraith, Michaud, Nixon, Pinard, Quelch, Rinfret, Ross (*Souris*), Stewart (*Winnipeg North*).

(Before resuming consideration of Bill No. 238, the Committee considered Bill No. 241, (Letter P8 of the Senate), intituled: "An Act to amend the Canadian and British Insurance Companies Act, 1932"; also Bill No. 242 (Letter Q8 of the Senate), intituled: "An Act to amend the Foreign Insurance Companies Act, 1932". Mr. G. D. Finlayson, Superintendent of Insurance, explained to the Committee the purpose of both Bills which were severally considered, adopted and ordered to be reported to the House without amendment.)

The Committee resumed from the previous sitting consideration of Bill No. 238, intituled: "An Act for Carrying into effect the Agreements for an International Monetary Fund and an International Bank of Reconstruction and Development".

The Chairman speaking on the motion of Mr. Low and Mr. Blackmore, presented at the close of the previous sitting of the Committee this day, ruled the said motion out of order, on the following grounds, viz:

(Text of motion appears in Minutes of Proceedings of previous sitting).

In Beauchesne's Parliamentary Rules and Forms, Third Edition, 1943, at page 197, note 537, it is stated as follows:

537. A Committee can only consider these matters which have been committed to it by the House.

A Committee is bound by, and is not at liberty to depart from, the order of reference. (B.469). In the case of a Select Committee upon a Bill, the Bill committed to it is itself the Order of Reference to the Committee, who must report it with or without amendment to the House.

The reference to Bourinot in Beauchesne's Third Edition reads as follows:

It is a clear principle of parliamentary law that a Committee is bound by, and is not at liberty to depart from, the order of reference.

.....
 Consequently, if a bill be referred to a select committee it will not be competent for that committee to go beyond the subject-matter of its provisions.

The Committee has not the power to recommend that the Bill be introduced at the next session of Parliament. The Committee's duties consist today in either recommending its adoption with or without amendment or rejecting it.

I therefore must rule the motion out of order.

The Committee, thereupon considered clause by clause, Bill No. 238.

Sections 1, 2, 3, 4 and 6 were adopted without amendment.

Section 5 was allowed to stand as Mr. Hazen wished to move an amendment thereto, and Mr. Fleming likewise wished to move an amendment as an additional section to the Bill.

At 6 o'clock p.m., the Committee adjourned to meet again at 8 o'clock p.m. this day.

EVENING SITTING

The Committee met again at 8 o'clock p.m., Mr. Hughes Cleaver, Chairman, presided.

Members present: Messrs. Belzile, Black (*Cumberland*), Blackmore, Bradette, Cleaver, Coldwell, Coté, (*St. John's-Iberville-Napierville*), Dionne (*Beauce*), Irvine, Jaenicke, Lafontaine, Low, Manross, Michaud, Rinfret.

The Committee resumed consideration of Bill No. 238 intituled: "An Act for Carrying into effect the Agreements for an International Monetary Fund and an International Bank for Reconstruction and Development."

On Section 5 of the said Bill.

Mr. Black (*Cumberland*), for Mr. Hazen, moved that the word "pay" in the first line of Section 5 of the Bill be struck out and the following be substituted therefore: "provide for the payment of".

And the question having been put on the said motion, it was unanimously adopted.

Section 5 as amended was agreed to.

On the said Bill.

Mr. Black (*Cumberland*), for Mr. Fleming, moved that the following Section be added to the said Bill.

"7. The Minister of Finance shall prepare and lay before Parliament a report of operations under this Act as soon as practicable after the close of each fiscal year, but in any event within thirty days after the end of each fiscal year, or, if Parliament be not then sitting, within thirty days after the commencement of the next ensuing session thereof."

And the question having been put on the said motion, it was unanimously adopted.

The preamble and the Title of the said Bill were adopted. The First and Second Schedules of the said Bill were agreed to.

On motion of Mr. Lafontaine, the Committee ordered that the Bill be reported to the House with amendments.

The Chairman, Mr. Hughes Cleaver, M.P., thanked the members for their generous cooperation.

At 8.15 o'clock p.m., the Committee adjourned to the call of the Chair.

ANTOINE CHASSÉ,

Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

December 11, 1945.

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

The CHAIRMAN: At the conclusion of our meeting yesterday members of the committee will recollect that we had a short informal discussion in regard to our procedure on the present reference. I was asked by the committee that I should arrange for the attendance of the Governor of the Bank of Canada, of Dr. Clark or Mr. Mackintosh in his place, and of Mr. Rasminsky, also of the Bank of Canada. The Governor of the Bank of Canada is absent from the city and will not be back for something like a week. He tells me, however, that Mr. Rasminsky is thoroughly familiar with the subject referred to us. He is here today and will now give evidence if it is your wish.

Mr. BLACKMORE: Mr. Chairman, before you start would it not be wise for you to give us the terms of reference?

The CHAIRMAN: I have made available to the committee copies of the Bretton Woods white paper and I have endeavoured to obtain copies of the bill in both languages so that every member of the committee would have a copy of it but unfortunately I have not enough copies of the bill to go round. What is your wish in that regard? We have a limited number of copies. Would it be proper if we were to hand to each of the different groups a proportionate share of the available copies and ask the different groups to make their own distribution? Would that be as fair a way to do it as possible?

Mr. Low: Mr. Chairman, that was hardly what Mr. Blackmore meant. We would like to have, if possible, the order of reference from the committee of the whole House.

The CHAIRMAN: Of course, as you know the reference by the House of Commons was only made today, and there is no reference in print. I hold in my hand the original reference signed by the Clerk of the House which I will read.

Mr. Low: That is fine. That is what we want.

The CHAIRMAN: Is every member of the committee in the room at the table? If not we will wait and get straightened out.

Mr. DECHENE: That does not matter.

The CHAIRMAN: I should apologize to the committee for convening such a committee in this room but our own committee room is not available. It will be available to-night and to-morrow, I believe. I have been asked in regard to the order of reference. In order that it may be complete perhaps I should first read our general order of reference and then the specific one of to-day. Our general order of reference is under date of October 10, 1945.

Resolved that the following members do compose the Standing Committee on Banking and Commerce.

Shall I dispense?

Some hon MEMBERS: Dispense.

The CHAIRMAN:

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.

Then, to-day's reference is under date of Tuesday, December 11.

Ordered that Bill No. 238, an Act for carrying into effect the agreements for an International Monetary Fund and an International Bank for Reconstruction and Development be referred to the said committee.

That is signed by the Clerk of the House. As I mentioned a moment ago we have not as yet enough copies of the bill for everyone. The clerk will hand a proportionate number to each of the four groups of the House and we will ask them to make their own distribution. Would you hand them to Mr. Low for the Social Credit group, Mr. Coldwell for the C.C.F., Mr. Macdonnell for the Progressive Conservatives, and who is the senior Liberal member here?

Mr. LAFONTAINE: There are none.

The CHAIRMAN: Hand them to Mr. Bradette for the Liberal group. Perhaps we had better wait a minute until those are distributed. Gentlemen, are you content now with the distribution which has been made?

Mr. FRASER: Those who have to sit on the sidelines are not content.

The CHAIRMAN: Before you came I apologized for having to call the meeting here, but it was the only available committee room. We have asked the members to crowd up as much as they can so there will be room at the table. Have you a copy of the white paper?

Mr. FRASER: No, that is the trouble.

The CHAIRMAN: Is there any other member on the sidelines who has not a copy? Are you all content now? Then we will carry on. Order, gentlemen. There are so many in a small room that your chairman will have to be a little cranky on order. At the Bretton Woods conference which was held from July 1 to July 22, 1944, Mr. L. Rasminsky was a member of the Canadian delegation. He is with us, and I will ask him first to give us briefly his educational background and business experience. Then I have suggested to him that perhaps it would be most helpful if he would outline in broad terms the different conferences and discussions which led up to the Bretton Woods conference, and then in broad terms the results which took place there. You had a question, Mr. Blackmore?

Mr. BLACKMORE: It seems to me that before we go forward we ought to have the principle of the bill definitely established.

The CHAIRMAN: Excuse me a minute; Mr. Blackmore asked for the floor. I will have you next, Mr. Coldwell.

Mr. BLACKMORE: It seems to me we should have the principle of the bill stated. We should have it stated exactly what the principle of this bill is. It seems to me that should be laid down before we start. Otherwise how do we know how to attack such an elaborate document as this?

The CHAIRMAN: Mr. Blackmore, I am afraid your constituents showed a lot more respect for your reading powers than you are now showing yourself. You have the measure before you. It is not for this committee, or any member of the committee, to instruct you as to what the measure means. You are here to study it yourself. That would be my opinion.

Mr. COLDWELL: I was going to ask a question. Perhaps Mr. Rasminsky would answer it later. I notice in our Act annex "C" of the final Act of the United Nations Monetary and Financial Conference, printed in 1944 and distributed to the members, is left out. It strikes me that annex "C" is a rather important statement by all the nations which were represented there indicating their agreement. I just noticed that it was not printed at the end of the Act.

The CHAIRMAN: Thank you very much for calling that to the attention of the committee. I have made a note of it, and at the proper time it will be dealt with.

Mr. BLACKMORE: Are we to gather from your remarks that we are not to determine upon the principle of the bill before commencing our investigation? Are we to understand that we are not to decide upon the principle of the bill before commencing our examination of it? If that is the case how can we possibly form an accurate opinion of the bill if we do not know the principle of it.

Mr. BLACK: We have got witnesses here.

Mr. BLACKMORE: It seems to me we ought to be able to come to some sort of understanding before we go into the matter.

The CHAIRMAN: As I understand the reference it says:

That Bill No. 238, an Act for carrying into effect the agreements for an international monetary fund and an international bank for reconstruction and development be referred to the said committee.

I would assume that it is our duty to first call witnesses in addition to studying the measure itself and to satisfy ourselves as to what the measure is. Each member will have to form his own opinion as to what is the object of the legislation. Our task is to study the actual measure which is referred to us.

Mr. BLACKMORE: I wonder if it would be a fair question to ask whether or not we are considering the objective of the Bretton Woods agreement or the Bretton Woods agreement as a technique for obtaining that objective. It seems to me there would be a tremendous difference between the two points of view. Are we aiming to consider the objective of the Bretton Woods agreement which, if I recall aright, the minister defined the other day in a general way somewhat as follows, that we believe in the principle of international co-operation for the attainment of the betterment of mankind. Those are not the words, but I believe that is the idea. That would be an objective with which I think no member of the committee would have any quarrel. When we come to the question as to whether or not the Bretton Woods agreement or the Bretton Woods technique is the correct technique by which to attain that objective there will be a wide diversity of opinion. It seems to me if we have these two matters very definitely in mind and decide which we are going to look for before we start it will be rather better.

The CHAIRMAN: You have expressed your views. I understood that it was a question, but you have expressed your views. Is it the wish of the committee that we should now hear Mr. Rasminsky?

Mr. QUELCH: Might I ask one question before that? It is not to hold things up. Maybe I should have been at every meeting but as you know the veterans committee has been sitting very consistently and it has been impossible for me to attend all meetings. It has been the usual practice in committees to allow the various groups to call other witnesses. Will that be the practice in this committee? Will it be the practice that any group can have the witnesses called whom they desire?

The CHAIRMAN: I am entirely in the hands of the committee. I believe that if any member of the committee wishes a witness called he should at once advise the chairman and I will take it up with the committee. I should have the names immediately. I do not need to remind members that we are at a very late date in the session. If you, Mr. Quelch, would like some witness called whose evidence you believe would be helpful to the committee in deciding whether or not Canada should sign this pact you should certainly advise me at once of his name and I will take the matter up with the committee.

Mr. QUELCH: I suppose you realize that it has not been known just when the committee would meet. As you say, it is late in the session. Therefore the meetings cannot carry on very long. As a rule if a committee starts early it is possible to have witnesses appear one week from today. I do not think our witnesses can appear here one week from today very well. As you know if a witness lives maybe four days travel from here it is going to be pretty hard to get him here, but as long as we have the assurance that within the next three or four days—

The CHAIRMAN: I cannot give any assurance. I told you a moment ago that the chairman is entirely in the hands of the committee. Whatever the committee decides to do it will be my duty to carry it out. If the committee decides that any witnesses whose names you suggest should be called to give evidence, if the committee approves, I will be glad to act accordingly.

Mr. BLACKMORE: I wonder if we might ask what the general course of proceedings will be in the committee. You have already announced you propose to call Mr. Rasminsky. Could you give us an idea as to who would probably be called next? Could you give us the names of the witnesses we might expect to be called, and for what reason they will be called?

The CHAIRMAN: You have been a member of the banking and commerce committee for some years.

Mr. BLACKMORE: That is why I am asking.

The CHAIRMAN: You have been a member of the banking and commerce committee as long as I have and you are familiar with the general practice. At the opening of the committee I stated what had occurred. I gave you the names of the witnesses the committee has suggested should be called, and I think I made full disclosure in that regard. Is it the wish of the committee now to hear Mr. Rasminsky?

Some Hon. MEMBERS: Yes.

Mr. L. RASMINSKY, Chairman (alternate), Foreign Exchange Control Board, called:

The WITNESS: Mr. Chairman and gentlemen, my name is Louis Rasminsky. I was born in Montreal in 1908. I was educated at the public and high schools in Montreal and Toronto. I graduated from the University of Toronto in economics in 1928 when I went to the University of London, the London School of Economics. I did not graduate from the London School of Economics as before graduation I took a post with the League of Nations economic and financial section. I remained there from 1930 until 1939, specializing in banking and currency questions. In 1939 I returned to Canada. In 1940 I took a post as head of the economic and research division of the Foreign Exchange Control Board. I am now Chairman (Alternate) of the Foreign Exchange Control Board and Executive Assistant to the Governors of the Bank of Canada. Is there anything else you wish in the way of personal background?

The CHAIRMAN: No. Mr. Rasminsky. You may be rather long, would you prefer to stand or to sit?

The WITNESS: I prefer to sit if that is agreeable to you and the members of the committee.

Mr. BLACKMORE: I would like to ask Mr. Rasminsky, if it is in order—he asked if there are any other questions we wanted to ask—

Mr. MACDONNELL: I do not like to put Mr. Rasminsky in any embarrassing position, but it is rather difficult for us to follow what he is saying because we cannot see him.

The CHAIRMAN: I was going to vacate my chair and ask Mr. Rasminsky to sit in the centre of the table so that you all will see him. And I have this

suggestion to make; I think it would lead to a much better hearing if the witness were permitted to make whatever he wished to by way of general statement first—

Some hon. MEMBERS: Hear, hear.

The CHAIRMAN: —without interrupting his continuity of thought. I want to assure you all in advance that every member of this committee will have full and complete opportunity of asking questions after his general submission has been made.

The WITNESS: I am, of course, entirely in the hands of the committee, but I would like to make it clear that if Mr. Blackmore wants to ask any questions about my personal background I am entirely prepared to answer at this time.

MR. BLACKMORE: The only reason that I rise to ask a question was that Mr. Rasminsky had asked if any member of the committee wanted to ask questions. I wanted to ask Mr. Rasminsky if he had any special training in international trade, trade balances and things of that kind?

The WITNESS: Well, as I said, Mr. Blackmore, I was with the League of Nations in the economic and financial department from August 1930 until 1939. During that time I was specializing mainly in monetary and financial questions, and in that connection I believe it is quite impossible to avoid a study and consideration of matters relating to international trade. Therefore, the answer to your question is yes, sir.

The chairman has suggested that I start by saying something about the background of the various discussions and negotiations which led in the end to the Bretton Woods agreement. I can, of course, speak only from my own knowledge of what the background of negotiations has been. The first knowledge which I had of these plans was when I was shown a preliminary draft of what ultimately became the clearing union proposal published in the United Kingdom, the authorship of which is attributed to Lord Keynes. I was shown that preliminary draft in, as I recall, September of 1942. In the spring of 1943 I was shown a copy of what was called the preliminary draft outline of a plan of the United States treasury experts for an international stabilization fund. Along with other Canadian, if you will permit me to use the word in inverted commas, "experts"—I do not want to use the term official because I am not a government official—along with other Canadian financial "experts", let us say, in this matter I gave thought to these proposals during the latter part of 1942 and the early part of 1943. It seemed obvious to all of us that it would be necessary through concerted action to attempt to create some form of international monetary mechanism if a situation resembling chaos from which Canada would suffer a great deal were to be avoided after the war. On examining the two proposals that were put forward, the proposal put forward by Lord Keynes and the proposal put forward by the American treasury experts, which is generally associated with the name of Harry D. White, Assistant Secretary of the Treasury, we came to the conclusion that the similarities among these proposals were of a great deal more importance than the difference between them.

If I may say first what the similarities were, there were two essential features of these proposals which were common to the British and the American plan. The first was a recognition that the exchange rate of one country on another is also the exchange rate of the other country on the one; that in its nature an exchange rate is a two-ended thing; and that therefore questions of changes in exchange rates were properly matters for international consultation. The second essential similarity between these two plans was that they both provided "an assured line of credit", a phrase which I use in inverted commas because I think it will probably give rise to some discussion later, to participating countries. That is to say, it gave countries an assurance that if they came into

a situation where, as a result for example of a depression abroad or a crop failure at home or as a result of any other reason they encountered a deficiency in their current account balance of payments, that they would be able to cover that, within certain limits through using the resources of the central organization. In other words, there was created a pool of international liquidity which was to be open to all countries in specified proportions.

There were two main differences between the clearing union proposal and the American proposal. One was a difference of form. The clearing union proposal was much more elegant in form, and in a sense much more logical in concept than the American stabilization fund proposal. I am afraid it would take me too long to describe exactly the difference in the form of the two proposals, but I might summarize it by saying that the clearing union proposal was based upon the British banking principle of the overdraft whereas the American proposal was based upon the principle of deposit banking with a fund. There was also an essential difference in substance between the two proposals. This was that under the clearing union proposal there was no upper limit to the commitment that creditor countries were asked to undertake to provide resources through the institution; the extent of their commitment would be determined by the extent of the unbalance in their accounts with member countries. Under the Bretton Woods proposal as it has finally emerged the Canadian financial commitment is fixed at \$300,000,000. It would not have been possible under the form of the clearing union proposal to have fixed the Canadian financial commitment at any definite figure except a figure which would have been so improbably large as to produce a result which everyone would have regarded as fantastic; theoretically the maximum figure would be the sum of the quotas of all other countries.

In considering these proposals the Canadian group, after consultation with officials of other countries, came to the conclusion that the clearing union proposal was impractical because it would not be possible to reach an agreement on that basis. There were many features of the clearing union proposal, however, which were admired. There were also certain features of the American proposal which we liked and others which we did not like, and we had certain ideas of our own. And so it was thought desirable, for the purpose of trying to get a common proposal which would be acceptable to all the countries, that the Canadian group put out a proposal of their own. That was the genesis of the Draft Proposals of Canadian Experts for an International Exchange Union which was published in June of 1943. Before and after these proposals were published a great deal of discussion took place in Ottawa, in London and in Washington, and in other parts of the world, largely on the basis of these three documents. By April of 1944 the area of disagreement among experts—and I would emphasize that all the discussions that I am now speaking of were discussions among experts and entirely non-committal and exploratory so far as governments were concerned—by April of 1944 the area of disagreement had been sufficiently narrowed to make possible the publication of what is known as the Joint Statement by Experts on the Establishment of an International Monetary Fund. This document was published simultaneously in London, Washington, Ottawa, Moscow and other countries which I am not able to think of at the moment. This document became the main working paper of the Bretton Woods Conference as regards the international monetary fund.

The Bretton Woods Conference was held at Bretton Woods, New Hampshire from July 1 to July 22, 1944. It was attended by the representatives of 44 nations. At the end of the conference, after three weeks of very hard work, a Final Act was signed which includes certain resolutions, which includes the articles of agreement of the International Monetary Fund, the articles of agreement of the International Bank for Reconstruction and Development and,

as Annex "C", a summary of agreements of the Bretton Woods Conference. In the print, Mr. Coldwell, which was published in Ottawa, in the final Act I do find Annex "C".

Mr. CROLL: Yes, it is in our own.

The WITNESS: Yes, it is in our own. It is not included in the bill before parliament because Annex "C", like the resolutions, was adopted to be communicated to governments for such action as they might see fit to take, whereas the articles of agreement remain open for signature at Washington until the end of this year.

The Joint Statement of Experts on the International Monetary Fund became, then, the main working paper of the conference that was held at Bretton Woods. A great many suggestions were made by the representatives of various countries for additions to the joint statement, for revisions of the various sections in the joint statement; with regard to certain clauses which were under discussion as many as, I recall, eleven alternatives were proposed. It was only to be expected, in a conference attended by representatives of 44 nations, each with his own problems in his mind, each with his own background, that the approach to many of these problems should have been different. In the end I think it is true to say that no country got exactly what they wanted out of the Bretton Woods conference. On the other hand I think it is equally true to say that all countries got out of the Bretton Woods Conference much more than most people concerned with these matters would have thought, a year or two previously, would have been possible. Naturally, a conference of that sort is a process of give and take. What every one was looking for, I think I am right in saying, was an end result that would be satisfactory on balance and that would avoid the major errors of the past in this field.

At Bretton Woods the articles of agreement were drafted for two new institutions, an International Monetary Fund and an International Investment Bank, and it is membership in these two institutions which the Canadian parliament is now being asked to ratify.

If I were asked to summarize in one sentence what the International Monetary Fund is, I would say that the International Monetary Fund is a new type of international monetary standard which seeks to reconcile the desire of all countries to carry out domestic economic policies which are aimed at high levels of income and high levels of employment, with the desire of countries to have orderly international economic and monetary arrangements so that trade can go forward and take place to the benefit of all.

The chairman has suggested that I try to describe what are the essential features of the fund and of the bank, and I shall now address myself to this more detailed exposition. I think that the most convenient way of doing this is to try to answer two questions: (1) What obligations are assumed by members of the International Monetary Fund? and (2), What benefits are obtained by the members of the International Monetary Fund?

What obligations are assumed by members of the international monetary fund? First, members assume certain obligations relating to exchange stability. Which document shall I refer to, Mr. Chairman? Shall I refer to the white paper or to the bill?

The CHAIRMAN: I think it would perhaps be better if you refer to the one that all members have.

The WITNESS: I am referring to the Canadian print of the final Act. The reference will be to that. I am now talking about the obligations that members assume regarding exchange stability. First, under the general purposes of the fund—

Mr. NIXON: What page is that?

The WITNESS: This is at page 18. I mention this because it is a purpose of the fund. It is not an obligation of members, though obviously one would not expect members to carry on in a way which was inconsistent with these purposes. First, under purposes:

The purposes of the International Monetary Fund are:

- (iii) To promote exchange stability to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

Turning now to the section on par values of currency, at page 20, under section 1 (a), members are to express the par value of their currency in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944. I know that the assertion has been made that that section constitutes adherence to the international gold standard. If you will permit me, I will pass that over now because I am sure that members of the committee will wish to ask questions on that point at a later stage. Perhaps I will just add my own opinion, for what it is worth, that that is not the case, that the definition of the par value of the Canadian dollar under this provision will not return Canada to the international gold standard.

The first obligation that members assume under this general head of exchange stability is, then, to define the par value of their currency as set out in article IV, section 1 (a). The second obligation which they assume is that set out in sections 2 and 3 which can really be taken together, gold transactions and foreign exchange transactions based on par value. Section 4 then sets out the general obligations regarding exchange stability, and I see that it does repeat as an obligation of members the general words included also among the purposes of the fund which I read out before. We come now to the important section 5, changes in par values. The general effect of the provisions under article IV, section 5, is I think as follows: (1) members agree to consult with the fund regarding any proposed change in the par value of their currency as initially communicated to the fund and not to propose a change unless necessary to correct a fundamental disequilibrium; (2) if the proposed change does not exceed 10 per cent, the fund has no right to object; (3) if the proposed change does exceed 10 per cent, the fund may either concur or object. If the fund concurs, that is the end of the matter. If the fund objects, there is no obligation in this document on the part of countries to refrain from making the contemplated change in their exchange rate. If they make the change notwithstanding the objection of the fund, they are in no sense whatever in default of their obligations under the fund agreement. However, if they do make that change notwithstanding the objection of the fund, then certain consequences follow. The first is that the member loses its right to make additional purchases of foreign exchange from the fund in exchange for its own currency. The resources of the fund constitute a pool of international liquidity which is created in order to maintain exchange rates which are generally regarded as reasonable exchange rates, and that pool of international liquidity is confined to that purpose. If the nations as a whole believe that any particular change has been unreasonable, then that member, the member who made that change, has no further right to buy foreign exchange from the fund for its own currency.

The second consequence which may follow is that if the difference of opinion between the member and the fund persists for a very long period of time, the member may be expelled from the fund. Expulsion may take place on a vote of a majority of the quotas, qualified in this way, that there must also be a majority of the member countries. The ordinary voting procedure of the fund calls for decisions to be taken by a majority of votes, and voting strength is related to the quotas. But in this particular case, when so serious a matter is involved as possible expulsion of a member from the fund, there must

be not only a majority of the quotas, but in addition a majority of the countries in the fund must feel that the situation is serious enough to warrant expulsion.

As I have indicated, the committment given in this document by countries is not a committment to refrain from changing their exchange rates without the concurrence of the fund, but is a commitment to consult.

I should now like to invite your attention to article IV, section 5, paragraph (f) on page 21. That reads as follows:

The fund shall concur in a proposed change which is within the terms of (c) (ii) or (c) (iii) above— That is a change exceeding the initial 10 per cent leeway which each member has.

—if it is satisfied that the change is necessary to correct a fundamental disequilibrium. In particular, provided it is so satisfied, it shall not object to a proposed change because of the domestic social or political policies of the member proposing the change.

I think it would be difficult to overrate the significance of that provision. What that provision does is to make it clear that adjustment of exchange rates is an accepted technique of adjustment to conditions and disequilibrium. If the fund is satisfied that the change is necessary to correct a fundamental disequilibrium then the fund has the duty to agree to the change, and in exercising that duty the fund has no right, as you will see from the next sentence of that clause, to enquire into the domestic social or domestic political policy which gave rise to the fundamental disequilibrium causing the need for the change. All that the fund has the right to do is to enquire into a question of fact: is there or is there not a fundamental disequilibrium to correct when a change in exchange rates is needed? And if it finds that there is, in fact, such a fundamental disequilibrium, it is the duty of the fund to concur in the request for a change in the exchange rate.

I have referred now to the first of the obligations assumed by members in these proposals, namely, exchange stability. I would like to make it clear that I am dealing now with essentials; I am not trying to summarize the whole agreement at the moment because I believe that would be impossible in an opening statement. The second important obligation assumed by the members is the obligation to avoid exchange restrictions on current account transactions. That you will find in this white print on page 26, article VIII, section 2. I should like to read the three paragraphs:

2 (a) Subject to the provisions of article VII, section 3(b), and article XIV, section 2, no member shall, without the approval of the fund, impose restrictions on the making of payments and transfers for current international transactions:

Article VII, section 3(b), is the scarce currency article, and article XIV, section 2, is the transitional period article. The general obligation is to avoid such things as blocked accounts or exchange restrictions of any sort on current account transfers. It does not apply to capital transfers which members remain free under this document to control.

Along with that one should also be read section 3 of the same article VIII:

No member shall engage in, or permit any of its fiscal agencies, referred to in article V, section 1, to engage in, any discriminatory currency arrangements or multiple currency practices except as authorized under this agreement or approved by the fund.

The general effect of those sections is that such things as I say, exchange restrictions, blocked balances, are avoided, and, if you will forgive me for using a very long and technical term, the multilateral convertibility of currencies is established.

I should like to illustrate the meaning of that expression and, at the same time, attempt to show the importance of this particular provision by reference to our own situation. Before the war, and to an even greater extent during the war, the Canadian balance of payments possessed certain structural characteristics which made convertibility a most important thing for us. We have, as members of the committee are aware, a large surplus in our current account transactions with the United Kingdom and the rest of the sterling area. In our transactions with the United States, and extending them to include not only the United States but the whole non-sterling area, we have a large and chronic deficit. Under the conditions that prevailed before the war this structural characteristic in our balance of payments was of no consequence to us because we were able, through the normal transfers in the exchange market in London or in New York, to convert our surplus sterling into American funds which we were able to use and pay for the deficit in our current account with the United States. For several years before the war we had an over-all surplus in our balance of payments so that Canada had become what is known as a mature debtor country; that is to say, a capital exporting debtor country, one which was reducing its debt abroad. In the course of the war the convertibility of sterling ceased; the United Kingdom was obliged at the outbreak of the war to apply exchange control and exchange restrictions and the same was done by other countries.

If convertibility of currency was not available to us we should be in a position where we would have to try to balance our accounts by bilaterally with the United Kingdom or with a group of countries that were trading in terms of sterling. If one thinks of the processes that would be needed in order to accomplish this result I think one is driven to the conclusion that the convertibility of currencies is a thing of major importance to us. How balance our accounts with any given group of countries? We export more to the United Kingdom than we import, and I think we all would agree that we should attempt to import more to reduce the degree of unbalance. But no practically conceivable increase in our imports will eliminate the unbalance—even if we were to double our imports from the United Kingdom, that would not eliminate the unbalance in our accounts. If we were to attempt to balance accounts by diverting imports from other countries that naturally raises questions of discrimination and of the repercussions on our exports to the third countries concerned. Should we attempt to balance our accounts by reducing exports, and, if so, what exports? What a country in Canada's position needs, it seems to me, is a situation under which it can export freely to any part of the world with the assurance that it will be able to use the proceeds to import freely from any part of the world and not necessarily from the countries to which it is exporting. In this respect I think we can feel happy that our own national interest in the matter coincides with the general interest and that in pursuing policies that are aimed at currency convertibility we are not pursuing exclusively selfish nationalistic policies.

I have now mentioned three obligations assumed by member countries: (1) obligations regarding exchange stability; (2) obligations regarding avoidance of exchange restrictions; (3) closely related to (2) the obligations regarding currency convertibility. The fourth obligation, and this is the last important one—the last that I would list as an important one—is the contribution that we make to the financial resources of the fund.

If the fund is to be in a position to help members it must obviously have the wherewithal, it must have the means at its disposal. A quota has been assigned to each country. It is a measure of three things; it is a measure (a) of the country's obligation to contribute resources to the fund; (b) it is a measure of the country's ability to get support from the fund through purchasing exchange; (c) it is a measure—not an exact one—of the voting strength of the various members of the fund. The Canadian contribution or quota in the fund amounts

to \$300,000,000 expressed in terms of American dollars. The contributions are to be paid in this way: as to 25 per cent in gold with the proviso that in meeting this portion of its contribution no country need part with more than 10 per cent of its own independent reserves, and as to the balance, which in the normal case would be 75 per cent, in national currency.

I should like to make a comment on each of these two forms of contribution and I will begin in this way, that the national currency contribution is available to the fund to sell to member countries who have payments to make in that currency. The reason for requiring a gold contribution is so that the fund may have some generalized resources so that the fund may have a certain *masse de manœuvre*, certain assets which can be converted into any currency which the members of the fund happen to need.

Now, I pass to my second main heading: What benefits are obtained through membership in the fund? The first I would list is the obverse of the obligations: members obtain some assurance that through this, as one part of general action along these lines, we will avoid currency chaos after the war, that there will be orderly exchange arrangements which will permit of a high level of mutually beneficial trade among the member countries. I do not think it is necessary to emphasize the importance of this particular benefit to a country in Canada's position. In the Canadian economy foreign trade is very important, whether we like it or not; and the structural characteristic of our balance of payments, which I have already referred to, lends a particular importance to the achievement of multilateral convertibility.

I pass now to the second benefit obtained by members. Members obtain the benefit of a forum, of an organ of consultation where they can discuss with each other the impact of their respective policies on domestic conditions. This may seem simple enough and in truth one can say that it is not very much. Yet there was an astonishing lack before the war of such a forum. There was an astonishing lack of cooperation with regard to the matters with which the fund will be concerned. I think it would be difficult to exaggerate the importance of the opportunities for discussion that are provided through the establishment of this organ of consultation.

The third main benefit that countries obtain through adherence to the fund is the assurance of financial support in time of need, and support which is not given on the basis of negotiations with individual countries but support that is given because the member in joining the fund receives the assurance of such support. The support is given from an institution which is not the property of any one country to whom the country in difficulties might not wish to be beholden, but from an institution which is the property of the whole community of nations.

The provisions regarding this support are set out in article 5 of the articles of agreement of the International Monetary Fund. It is page 22. In general one can summarize those provisions by saying that, subject to certain safeguards against abuse, the fund establishes facilities under which members may buy foreign exchange in return for their national currency to the extent of their original gold contribution plus their quota. That is another way of saying up until the point when the fund is holding 200 per cent of the currency of each country. So that Canada on joining the fund would have established facilities for the purchase of foreign exchange from the fund for current transactions to the extent of \$300,000,000. (The figures I have used throughout are all expressed in terms of United States funds.) This exchange can normally be bought at the rate of 25 per cent of each member's quota per annum. That is to say that in our case we could buy \$75,000,000 worth of foreign exchange from the fund in each year. These are what one might call the ordinary facilities made available to members through the fund. In addition under article V,

section 4, on page 22, the fund may waive these conditions and may permit a member to buy foreign exchange to the extent of more than 25 per cent of its quota in any given year or to buy foreign exchange to an extent which raises the fund's holdings of the currency of that member above the figure of 200 per cent of its quota which I mentioned previously. I think I have already indicated the general importance of this provision. It means that countries have additional international monetary reserves to the extent of their quotas. That in turn means that there is that much more slack in the connection between economic conditions in that country and economic conditions in the outside world.

Perhaps you will permit me to give an illustration to show what I mean by that. Let us assume that there is a depression in the United States. So far as Canada is concerned the impact effect of the depression is felt in our export industries. They are able to sell less and they sell at lower prices. Our foreign exchange income falls as a result of the decline in the proceeds of our exports caused by the depression in the United States. The so-called "rules" of the gold standard game called in those circumstances for a country in Canada's position to attempt to adjust its international accounts by a deflationary policy at home. This was all supposed to be automatic. The Central bank lost foreign exchange at home. It was working to a fixed gold reserve ratio. The gold reserve ratio tended to fall. People got nervous. The commercial banks' cash base was contracted. They called in credit. Manufacturers and traders were forced to liquidate their inventories and prices fell. The result was unemployment. Incomes were cut. Consequently our imports were reduced, our exports were stimulated, and this tended to redress the unbalance in our international accounts. That is the classical statement of the aspects of the gold standard that people object to. I conceive it to be an unrealistic interpretation of the facts and an inaccurate description of the way the gold standard actually operated. At all events, for many years there have been very few countries, and certainly to-day there are very few countries, which would be prepared to accept such a discipline of adjusting domestic credit conditions in that way to changes in their gold holdings or in their international reserves.

What the fund does, to the extent of the resources it provides, is to help a country to postpone the necessity of drastic adjusting action to balance its international accounts if there is a depression abroad—action such as deflation or import restrictions or currency depreciation. It provides a breathing spell that makes it possible for the country to see whether the depression abroad is, in fact, a temporary recession that will soon be over or whether it is something more fundamental and deep seated. If it is a temporary recession then there is no reason why countries should aggravate their own position by imposing restrictive measures. If it is a long term movement, if countries were wrong in originally thinking that it was a temporary recession abroad that was causing a decline in their foreign exchange income, then the country must obviously consider how to deal with that situation. One method that would be open to it to deal with the situation would be, if the national authorities of that country thought such a course appropriate, to depreciate its exchange rate, in accordance with the provisions regarding exchange stability I have already outlined. What these credit provisions do is to provide a breathing spell which makes it unnecessary for countries to take drastic action of any of the sorts I have indicated, deflation, import restrictions or currency depreciation, until that country is aware what the situation really calls for.

I have summarized now the two main sets of provisions regarding the fund. I have attempted to answer the question as to what obligations are assumed and what benefits are obtained. There are two other matters relating to the fund that I feel I should refer to particularly though I shall try to do so

more briefly than I have handled these points. One is the provisions regarding the transitional period. These provisions are set out in article 14 on page 33 of the print.

You will see from section 1 of that article that the fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war. Indeed, the resources of the fund which consist of \$8,800,000,000, that being the aggregate of the quotas of all the member countries, would be quite inadequate for the purposes set out in article 14 of section 1.

The conference at Bretton Woods was obliged, facing the facts of the situation, to recognize that this being the case certain countries would not be able immediately to assume the obligations regarding the elimination of exchange restrictions and the convertibility of their currencies, which I mentioned previously. The effect of article XIV is to enable countries who wish to do so to defer for a certain period of time the assumption of these obligations without thereby losing any of their rights in the fund. After a period of three years the fund is required, in section 4 I believe—yes; after a period of three years the fund is required to report on the restrictions still in force under this provision; and, after five years, any member which retains any such exchange restrictions or inconvertibility is required to consult with the fund as to their further retention. You will see that in section 5 the fund is required to recognize in its relations with members that the post-war transitional period will be one of change and adjustment; and in making decisions on changes requested thereby, requested by any country, it will give the member the benefit of any reasonable doubt. These provisions were drafted mainly with the case of the United Kingdom in mind. It is hoped that one of the effects of the recently negotiated credit agreement between the United States and the United Kingdom will be so to improve the international position of the United Kingdom as to enable that country to assume at a date considerably earlier than that contemplated at Bretton Woods the full obligation of membership in the Bretton Woods proposals.

So much for the transitional period. The other point in connection with the fund on which I should perhaps comment is the provision, or the provisions, regarding management. There is a three tiered management of the fund. The top layer, the sovereign body of the fund, is called the board of governors, and it consists of representatives of each of the governments which are members of the fund. All of the powers in the fund are vested in the board of governors. The fund is not something which has any existence apart from the members, apart from the countries which are members of it. It is not a separate entity which has any powers except for the powers that it derives from the governments which constitute the fund.

The second tier in the constitutional set-up of the fund is the tier of the executive directors. There are provisions under which the five countries having the largest quotas in the fund—which are the United States, the United Kingdom, the Soviet Union, China and France—have the right to appoint an executive director. The nineteen Latin American countries who were represented at the Bretton Woods conference have between them the right to elect two executive directors; and the rest of the world has the right to elect five executive directors. The method of election is a combination of proportional representation and transferable vote under which everybody must back a winning horse in the race, and each director knows which countries have contributed to his election. Then, the third layer in the management of the fund is the managing director and the staff of the fund who exercise such power as may be conferred by the board of governors, or through delegation, by the executive directors. The executive directors are of course also, like the governors, representatives of governments.

Now, sir, those are what I conceive to be the essential features of the fund. I apologize to the committee for having taken so long to describe them, and I think that I can be a good deal briefer as regards the bank, because the bank is much more orthodox in conception.

Mr. IRVINE: Mr. Chairman, would it not be better for us to give the speaker a rest to take the bank next time? We might devote the rest of this session to questions on the fund.

The CHAIRMAN: Let us have a general discussion and find out how the committee feel about having a sitting this evening. Do you want to sit at 8 o'clock to-night.

Some hon. MEMBERS: Yes, yes.

The CHAIRMAN: If you do, perhaps we could adjourn now. We will have room 277 to-night. We will meet in room 277 at 8 o'clock this evening.

The committee adjourned at 5.35 o'clock p.m. to meet again in room 277 at 8 o'clock p.m. this day.

EVENING SESSION

The committee resumed at 8.00 p.m.

Mr. LOUIS RASMINSKY, recalled.

The CHAIRMAN: If you will come to order now, gentlemen, we will ask the witness to resume.

The WITNESS: Mr. Chairman, I had concluded my exposition of the International Monetary Fund and I had thought it was the intention that questions should be asked of me at this time. Or did you wish to continue with the exposition of the bank?

The CHAIRMAN: If you think it would lead to more clarity to clean up the one problem first we will do that.

The WITNESS: The fund is much more controversial than the bank, and I do think that perhaps it would facilitate discussion if we do that.

By Mr. Coldwell:

Q. I was going to ask this question. As to article 8, sections 2 (a) and (b) what effect would that have on a country's attempt to control the export of funds for the purchase of commodities? During the war we have had the Foreign Exchange Control Board here. Would this interfere with our exercising that kind of control on the export of funds for the purchase of goods, not capital exports but funds merely for the purchase of goods in a foreign country or for travel?—A. May I reply to that question in this way, that section 2 of article 8, page 26, reads that subject to certain provisions no member shall, without the approval of the fund, impose restrictions on the making of payments and transfers for current international transactions. In the article dealing with the explanation of the terms, which is article XIX, paragraph (i), page 37, payments for current transactions is defined in this way.

(i) Payments for current transactions means payments which are not for the purpose of transferring capital, and includes without limitation:—

(1) all payments due in connection with foreign trade, other current business, including services, and normal short term banking and credit facilities;

- (2) payments due as interest on loans and as net income from other investments;
- (3) payments of moderate amount for amortization of loans or for depreciation of direct investments;
- (4) moderate remittances for family living expenses.

The fund may, after consultation with the members concerned, determine whether certain specific transactions are to be considered current transactions or capital transactions.

The general sense of this provision is that the resources of the fund are not intended to be used to facilitate the large scale export of capital. Current transactions, as you will see, are defined to include under paragraph (i) (3) or article XIX payments of moderate amount for amortization of loans or for depreciation of direct investments. The reason for that limitation on the use of the resources of the fund is that when members put resources into the fund their purpose is to facilitate their trade and their ordinary current business. We should not wish, I think, to see Canadian dollars that we put into the fund used to purchase Canadian securities or to build up the Canadian dollar balance in the hands of non-residents, if as a result of that the Canadian dollars ceased to be available for the export of goods which is what we are primarily interested in.

I realize, Mr. Coldwell, I have not yet got to the point of your question, but I am about to do so now. As I understand it Mr. Coldwell asked in substance whether there is anything in the provisions of this draft agreement which would prevent us from maintaining an exchange control of the type we have operated during the war. The answer to that, Mr. Coldwell, without any qualification is "No". There is nothing in the agreements which would prevent Canada or any other country from operating a system of foreign exchange control provided that that system was limited to the control of capital exports. That is to say, we would be at perfect liberty under this agreement to refuse to sell exchange for the purchase of securities abroad or to refuse to sell exchange merely for the transfer of funds abroad. I may have made an error in what I said a moment ago if I gave the impression that it would be open to us to impose travel restrictions. I think it is an open question whether that is a normal current account expenditure. I would be inclined to think if our situation were such that a restriction of that sort was necessary it would be expedient for us to discuss with the fund whether or not all travel expenditures were a normal current account transaction, but so far as the ordinary capital transactions are concerned there are no undertakings here that would require the country not to impose restrictions on such transactions.

The question naturally arises, how can you restrict capital transactions without at the same time controlling current account transactions? I must say that those of us who have had experience in the actual administration of foreign exchange control in Canada during the past five years—and I believe that experience is shared by other countries as well—have come to the conclusion that, in fact, it is not possible effectively to control capital transactions without having supervision over all exchange transactions. That supervision certainly need not involve restriction, but without a knowledge of the types of transactions that are taking place it is not possible to determine whether or not a given transaction is, in fact, an export of capital. Let me give you one illustration of that. A person wishes to withdraw capital from the country and is not permitted to do so under such legislation or regulations as may be in effect. He exports goods from the country, which obviously looks like a current account transaction. He sells the goods abroad and he leaves the money on

deposit abroad. He fails to repatriate the export proceeds. The foreign exchange resulting from the sale of those goods abroad is not placed at the disposal of the economy by being sold in Canada but is retained abroad.

By Mr. Blackmore:

Q. Is not what?—A. Is not placed at the disposal of the economy by being sold in Canada but is retained abroad, and in truth and in fact an export of capital has taken place in the form of goods. I make that point to make it clear that a country which felt that its position was such that it wished to do so could quite consistently with its undertakings under the Bretton Woods agreement maintain an exchange control of, let us say, the type that is being operated in Canada at the present time.

By Mr. Coldwell:

Q. I was interested because it seemed to me this might preclude Canada from exercising that kind of control over the export of funds for all sorts of purposes, for buying articles in the United States, for travel, holidays, and so on, for which people have to get permission to export funds. It seemed to me to preclude the possibility of any sort of control at all.—A. I think we had better be clear about this.. What I have been referring to is capital transactions. This does preclude exchange restrictions on imports, and it does preclude exchange restrictions on other current account transactions. What it does not preclude is control of capital transactions, such as the movement of funds and the purchase of securities.

By Mr. Low:

Q. But there is some difference of opinion as to whether it would include funds for travelling?

The CHAIRMAN: Is it your wish that we should carry through with the questions? Mr. Quelch really had the floor, but I understood you just had one question.

Mr. COLDWELL: That is the only question I had but I wanted to get that question answered.

The CHAIRMAN: Then Mr. Quelch can carry on.

By Mr. Quelch:

Q. Perhaps before I ask the question I had really intended to ask I might follow up this very question in this way apart from what the witness has already said. Is credit granted by the fund automatically regardless of unsound currency or economic policies, or has the fund the right to withhold credit because of such policies?—A. I take it, Mr. Quelch, that you refer to credit being granted by the fund you have in mind the right of the member to purchase foreign exchange?

Q. Yes.—A. Actually in form that is not a credit transaction. A member does not borrow foreign exchange from the fund. It buys it, and it pays for the foreign exchange with its own national currency and it owns that foreign exchange outright. However, that is merely a formal point. The question that you asked is whether members have such a right to buy foreign exchange regardless of their economic policies?

Q. What you might call unsound currency practices or economic policies.

The CHAIRMAN: Perhaps it would clarify the question if you would indicate to the witness what you mean by unsound currency practices.

By Mr. Quelch:

Q. I am just wondering whether the fund would have any right to judge the purpose that the money was to be used for?—A. No, sir. As long as the money was being used for current transactions as defined in this agreement the fund would have no right to judge. The member when he goes to the fund does not say to the fund, "I want \$10,000,000 because somebody in Canada has to pay a bill to the XYZ company in New York." The member goes to the fund because the condition of its monetary reserves is such that it wants to have additional exchange to supply to its own market, and even on the question of capital transactions the control that the fund would have there would be a statistical control. The member would supply certain information regarding the balance of its international payments from which the fund would judge whether the resources of the fund were being used for current or for capital transactions. And now, going back to the question as you originally put it; would the fund have the right to judge the members' internal economic policies; I would say in reply to that that the most important provision bearing on this point is to be found in the Final Provisions, that is article XX, section 4(b), page 39, regarding the initial determination of par values. That section reads: "(b) The par value communicated by a member whose metropolitan territory has not been occupied by the enemy shall be the par value of that member's currency for the purposes of this Agreement unless, within ninety days after the request referred to in (a) above has been received"; and, might I interpolate that the request referred to in (a) above is a request of members to communicate to the fund the actual rate of exchange prevailing sixty days before the fund agreement came into being—

By Mr. Irvine:

Q. It remains at that?—A. That is what this comes to, sir. Unless within ninety days of the request; "(1) the member notifies the fund that it regards the par value as unsatisfactory, or (ii) the fund notifies the member that in its opinion the par value cannot be maintained without causing recourse to the fund on the part of that member or others on a scale prejudicial to the fund and to members. When notification is given under (i) or (ii) above, the fund and the member shall, within a period determined by the fund in the light of all relevant circumstances, agree upon a suitable par value for that currency." So that from that point of view, Mr. Quelch, if the particular economic policy consisted in wanting to have an exchange rate that seemed grievously out of line with the facts of the situation, that country could not become a member of the fund because the fund and the member would fail to agree on an exchange rate and obviously no country would come into the fund.

By Mr. Quelch:

Q. So that within five years there is a low in which?—A. I would say that there is in this paragraph a very strong presumption that if the prevailing exchange rate of any member is desired by that country as an initial rate that the fund will not question that rate unless it is very, very much out of line with the realities of the situation.

Q. Then without question there will be a conference between the nation and the fund and they will attempt to reach an agreement as to what provision is needed?—A. That is right.

Q. The fund would only challenge it because it would interfere with its balances: if it did not upset its balances it probably would not challenge it?—A. It would not insist on the position of the balances. For example—I would like to give you one or two examples off the record, if I may.

The CHAIRMAN: I think it would be rather helpful if you would explain to the committee the results that would flow from the rate being too high; and, conversely, from it being too low.

Mr. QUELCH: That should be on the record.

The WITNESS: That should be on the record. At this point I would like to mention the names of one or two countries as an example to you, sir; if I might do so off the record.

The CHAIRMAN: Yes. Our friends of the press will keep in mind that this is off the record, please.

PRESS REPRESENTATIVES: Yes.

The CHAIRMAN: Thank you.

(Statement continued off the record).

The WITNESS: Now, this may go on the record. The reason that the fund has an interest in preventing exchange rates being established which are greatly out of line with the facts of the situation are these. In the first place, if the currency is over valued, that is so say that if the true value of the currency as measured let us say by its internal purchasing power compared with the internal purchasing power of other people's money, if the true value of the currency in terms of goods is low, imports will be very cheap in those countries, in terms of the national currency. There will be great pressure on those countries to get this cheap foreign exchange because their own currency is over valued and use up rapidly their resources in the fund to the detriment of other members.

By Mr. Quelch:

Might I interrupt you there?—A. Surely.

Q. Would not that nation on the other hand be liable to put up tariffs, increase their tariffs against other nations, in order to bring in goods cheaply?—A. That is the opposite case. That is the case where currency is under valued. In the case I have taken there really would be no question of tariffs, it would rather be a bonusing of imports. And may I give you another case off the record?

(Statement made off the record).

The other case, Mr. Quelch, has other dangers. If it is a case where the country wants to put too low a value on its currency; where its currency is really worth five cents American per unit, say, and the country wants to say that it is only worth one cent American per unit; there the danger is that through that competitive currency depreciation that that country will get a competitive advantage in the export markets and upset the balances of payment position of other countries. In cases where the rate chosen by the country departs very, very considerably from some reasonable approximation of the true rate it would be against the interests of members to allow the fund's resources to be used in effect to support an untenable exchange rate.

Q. I appreciated very much your exposition this afternoon. I thought it a real treat on account of the clarity of expression; but it seemed to me that when you were dealing with the points you went just far enough to arouse interest and then dropped it to go on to another point, perhaps with the idea of inviting questions.—A. I thought I was speaking too long as it was, Mr. Quelch.

Q. I always felt that the International Monetary Fund had a broad credit basis, and when you spoke you referred to the Keynes' plan stabilization fund. You will recall that in his proposals in the explanation at the start

and throughout the various sections he did stress the fact that the creditor had a very direct responsibility for helping to bring about a balance of payment. In section 3, I think it was, he even went so far as to suggest it might be necessary in some cases to cancel a credit of creditor nations. And, in so far as Canada is concerned, I always felt that we were not suffering under this plan because I in the House said Canada expected to be a creditor nation; and it was on account of the white paper which on page 8 states: "the government is mindful of the possibility that Canada might, as a member of both institutions, occupy the position of a "creditor" nation".

Of course, I realize that in spite of that we may still be I suppose a debtor nation on balance in so far as private operations are concerned. But nevertheless even though Canada may be a debtor nation it would be to such a small extent I would imagine that it would not seriously embarrass us in these proposals. But I am more worried about the nations that are definitely what you might call debtor nations, and I would like your opinion as to whether or not in view of the fact that the creditor nation does have a direct responsibility with respect to maintaining a balance of payments if more pressure should not be placed upon the creditor nations in order to bring about that balance?—A. I would be very glad to try to answer that, Mr. Quelch. Before I do so, would you be good enough to refer me to the exact passage in Keynes?

Q. It is in section 3 of his printed report, if yours is the same as the one I have. I haven't got it with me. It is about half way down the section. He says, either by cancellation or by investment. Yours is printed differently from the one that I had. I have the one that was distributed by the House. I forgot to bring it down with me. Section 3 in the one that was issued in the House, about half way down the page.—A. May I read the whole of it and put the whole of the section on the record, Mr. Quelch? He says:

It is not contemplated that either the debit or the credit balance of an individual country ought to exceed a certain maximum—let us say, its quota. In the case of debit balances this maximum has been made a rigid one, and, indeed counter-measures are called for long before the maximum is reached. In the case of credit balances no rigid maximum has been proposed. For the appropriate provision might be to require the cancellation or compulsory re-investment—

Q. Compulsory re-investment, I suppose that is designed to help the debtor nation pay off?—A. I was just wishing to put that on the record to show what Keynes had said in this matter:

It is not contemplated that either the debit or the credit balance of an individual country ought to exceed a certain maximum—let us say, its quota. In the case of debit balances this maximum has been made a rigid one, and, indeed, counter-measures are called for long before the maximum is reached. In the case of credit balances, no rigid maximum has been proposed. For the appropriate provision might be to require the eventual cancellation or compulsory investment of persistent bancor credit balances accumulating in excess of a member's quota; and, however desirable this may be in principle, it might be felt to impose on creditor countries a heavier burden than they can be asked to accept before having had experience of the benefit to them of the working of the plan as a whole.

Now, the question that you asked me is what I think about the distribution of pressures in this plan as between creditor countries and debtor countries. Let me begin by saying that I believe more and more people, including people in creditor countries, are coming to realize that a large measure of the responsibility

for maintaining balanced international payments at a high level, does fall on creditor countries. I feel myself that a remarkable degree of progress has been made in the education of public thought on that particular subject.

Q. Since when? During the war chiefly, do you mean?—A. Yes; I think it has been mainly due to the fact that during the war people have been forced to think in real terms and they realize that there are limitations on what a country can purchase abroad, limitations which take the form of the amount of foreign exchange at the disposal of that country. I think, for example, that Mutual Aid in this country and Lend-Lease in the United States had a remarkably educative effect as regards the facts of life in international balances of payments.

To come back to your question, it is to be borne in mind that there are debtor countries and there are creditor countries in the world, and if agreement is to be reached on a plan of this sort, it is I think impossible to expect that agreement could be reached on a basis which throws the entire burden of adjustment on either one of these groups. In certain parts of the world, in certain countries, it is felt that the fund as drafted does throw the entire burden of adjustment on creditor countries, that the provisions regarding debtor countries are remarkably lax. This is not a view, you understand, that I am expressing myself, Mr. Quelch; but the view is held in certain circles and particularly this view has been expressed in certain financial circles—and I am thinking of large financial institutions, particularly on the eastern seaboard in the United States—that the fund is much too lax and easy-going in its provision towards debtor countries. Here, it is said, for the first time in the world we set out to create an institution which extends automatically a fixed line of credit to every country in the world without any examination of their credit-worthiness, without any detailed inquiry into the purposes for which the funds are going to be used, other than the assurance that they will be used for current account transactions, without any regard to the past history of the country as regards, let us say, default on international debts. Here some people say, we are practically creating rights in credit—countries can simply go in and obtain from the fund with no questions asked. That view is seriously held, and has been very vigorously expressed, by groups which are not confined to one single country.

On the other hand, there is the view that you expressed, and that many people hold, that the whole burden of adjustment in a plan of this sort should be placed on the creditor country. Now, what burden of adjustment is placed on the creditor country in this plan? I feel that not enough importance has been attached to the provision of article VII relating to scarce currencies. A scarce currency is the currency of a country which through its international transactions is not putting as much of its exchange into the hands of foreigners as foreigners are wishing to use to make purchases; not putting enough of its exchange into the hands of foreigners through its imports of goods and services and its other international transactions.

Q. One that has a favourable balance.—A. That is right; a country with a favourable balance of payments. In the provisions of article VII, if a country is running persistently a favourable balance of payments and refusing or failing to make adjustments to that position, what happens? Under section 1:

If the fund finds that a general scarcity of a particular currency is developing, the fund may so inform members and may issue a report setting forth the causes of the scarcity and containing recommendations designed to bring it to an end. A representative of the member whose currency is involved shall participate in the preparation of the report.

So you have point number one, if a scarcity of a currency is threatening, the fund makes recommendations designed to bring it to an end. It is perfectly true that these are only recommendations. The fund has no executive authority to instruct

any country as to the steps that it should take to increase the world's supply of its currency. And while I am on this point, may I add that I doubt that there would be many legislatures in the world that would enter into an agreement which conferred upon an institution of this sort the power to direct them to take certain lines of action designed to increase the world's supply of their currency.

Then the fund, under section 2, can do certain other things to try to increase its own supply.

Q. When you say it would not agree to regulations to compel them to increase their supply of currency, what you mean there, to put it perhaps into simpler phraseology, is to compel them to accept imports in exchange for their exports.—
A. That is right.

By the Chairman:

Q. Just to resolve this point, may I interrupt with a question? What is your opinion, knowing the pact as you do, as to the possibility of a debtor country to improve its position and to eventually work up to the point where it would cease to be a debtor country, providing its population are willing to work hard and efficiently?

The WITNESS: Before I answer that, may I complete my previous answer? I am sorry, but I had not quite finished with it. I really had not come to the essential point yet.

The CHAIRMAN: I am sorry to have interrupted.

Mr. QUELCH: I wish you would complete your answer.

The WITNESS: The essential point, from the point of view of Mr. Quelch's question is this: the fund, having made its report on the causes of the scarcity, with recommendations attached, if the situation deteriorates and the currency becomes still scarcer, then the fund obviously must do something. It itself is running out of that currency. What is the fund entitled to do? What is the fund even required to do under the provisions of article VII, section 3? I am now starting to read at the fourth line:

The fund . . . shall formally declare such currency scarce and shall thenceforth apportion its existing and accruing supply . . . etc.

It must also issue a report concerning its action. Now, paragraph (b):

(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.

Will you please look also at section 5 of the same article:

Members agree not to invoke the obligations of any engagements entered into with other members prior to this agreement in such a manner as will prevent the operation of the provisions of this article.

What that means is that when a country, a creditor country, persistently behaves in this anti-social way of refusing to accept imports and its currency becomes scarce, then under the provisions of article VII the other members of the fund are entitled to impose an exchange control which is specifically directed against imports from that country. In other words, you can impose exchange restrictions in that case on imports from that country; and not only that, but under section 5 which I read, you are let out of the most-favoured-nation clause in your existing commercial treaty with that country.

I do suggest that this is a very far-reaching pressure on creditor countries to do something to balance their international accounts, because it puts it right up to those countries that either they carry out a policy that puts more of their currency at the disposal of foreigners or they see those foreign countries, as of right and as of international treaty, discriminating against their exports. I do put it to you, Mr. Quelch, that there is not as drastic a provision in this plan directed against debtor countries.

Mr. Mr. Quelch:

Q. When a debtor country places a restriction against the imports of the goods of creditor nations, what is happening? Suppose the debtor nation is a nation that has to import raw materials, manufacture them and then has to export the manufactured goods to pay for them. When it puts a restriction upon the imports of those raw materials, it is going to have a very drastic effect upon its own economy, is it not? For instance I have in mind Great Britain. And when I mention Great Britain do not let anybody run away with the idea that I am a British imperialist. I am just mentioning Britain. I think we all appreciate the great contribution Britain has made in this war. We all realize the unhappy position that Britain finds herself in to-day, and I think we realize that Britain may very well find herself in the position that I am referring to under this section. She has to import a lot of raw materials and pay for them by manufactured goods. Just placing a restriction upon the import of those raw materials is certainly not going to help England. She will have to continue to import them in order to manufacture the goods she needs for herself, and in order to pay for them. She might be able to reduce the amount of the current debt incurred but she would also reduce her standard of living. The point I was trying to make is this. First of all putting the bilateral basis, surely when a nation sells to another nation, it should accept the responsibility to accept payment from that country in goods. In other words, that country says to it, "We now give you a credit in payment for those goods. With that credit you can buy anything we produce." That is all that nation should have to do. Now put it on a multilateral basis. Surely the creditor nation, if it does not want to buy goods from that nation but prefers to buy them from another, it should have the obligation to see that that credit is clear. For instance, suppose a creditor nation buys from Germany instead of from England, after having established a credit in England. Then in buying from Germany they should see that Germany is going to buy those goods from Britain. It means a multilateral basis. There should be some obligation on the part of the creditor nation to see that that credit is clear. It is all very well to say it is not the job of the creditor nation to see that that is done, but just in what position are we placing those nations that depend upon the import of raw materials and manufacture the goods they live on, that they use and also to manufacture the goods to pay for the raw materials?

By Mr. Irvine:

Q. May I put a supplementary to that? In the hypothetical case which was mentioned by Mr. Quelch, would not Britain already have lost the currency of the country from which she wanted to import her raw materials before this action would be taken?—A. I did not hear the question.

Q. You heard Mr. Quelch's hypothetical case.—A. Yes, I did.

Q. My question is that in that case would not Britain have already lost the currency necessary in the country with which she was dealing to purchase the raw materials that she depended on?—A. Let me take that—

Mr. QUELCH: By putting a restriction on.

Mr. IRVINE: Before the restriction was put on.

The WITNESS: What Mr. Quelch seems to be assuming is that the operation of this scarce currency provision is going to be such that the United Kingdom is deprived of imports—using the United Kingdom simply as an example—

Mr. QUELCH: Not in the first instance; but I am looking forward after she has exhausted her rights under that fund.

The WITNESS: Yes, we have reached the stage now where a given currency is scarce. I take it we are still discussing the scarce currency provision—we have reached the stage when, let us say, United States dollars are scarce and the fund has declared them to be scarce. Say that the United Kingdom and all other countries have the right to impose import restrictions. Now, I have argued that that was quite a severe pressure on the creditor country. Mr. Quelch, as I understand it, says, "Oh, yes, but the debtor country, the country that wants to import is being deprived of the goods, so it suffers economically as well."

By Mr. Quelch:

Q. Yes, by putting a restriction— —A. On the imports.

Q. Yes.—A. Surely the answer to that is that the restriction on the import applies only to the country whose currency is scarce. The United Kingdom instead of buying cotton in the United States would buy cotton in Brazil and Brazil instead of buying automobiles in the United States will buy automobiles in the United Kingdom because for both of them the United States currency is scarce and they are both entitled to discriminate. The very essence of this is that it enables trade to go on among the countries which are managing to keep their account in fairly decent shape even though the facts of the situation make it necessary to restrict trade with the country which from a balance of payments point of view is misbehaving.

Mr. MACDONNELL: You will be temporarily setting up a sterling block.

The WITNESS: It might operate in some such way. Does that answer your question?

Mr. IRVINE: That is quite clear.

By Mr. Quelch:

Q. I feel that on the other hand the penalty imposed upon the definition under subsection (d) of section 8 of article V might be a very severe one. I quite realize it is hard to say how far that might go.—A. Subsection?

Q. Again we can take it that the nation will be the same one as you mentioned before.—A. Mr. Quelch, these are the interest rate provisions?

Q. Yes. Clause (d) is the climax.—A. I know you have attached a great deal of importance to the interest rate provisions, and I have here a table which, with the permission of the chairman I will place on the record. May I pass this to you, Mr. Quelch?

The CHAIRMAN: Is it the wish of the committee that this document shall be put on the record?

Agreed.

MINIMUM PERCENTAGE CHARGES PAYABLE BY A COUNTRY ON FUND'S HOLDINGS
OF ITS CURRENCY IN EXCESS OF ITS QUOTA

MARGINAL CHARGES

Amount of country's currency held by Fund as percentage of country's quota	Per cent per annum payable on excess currency during									
	1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year	7th Year	8th Year	9th Year	10th Year
101-125.....	$\frac{3}{8}$ *	1	1½	2	2½	3	3½	4†	4½	5
126-150.....	1	1½	2	2½	3	3½	4†	4½	5	5
151-175.....	1½	2	2½	3	3½	4†	4½	5	5	5
176-200.....	2	2½	3	3½	4†	4½	5	5	5	5
201-225.....	2½	3	3½	4†	4½	5	5	5	5	5
226-250.....	3	3½	4†	4½	5	5	5	5	5	5
Additional amounts	Corresponding increases up to 5%									

* No payment in first three months; $\frac{1}{8}$ % in next nine.

† At this point the Fund and the member shall consider ways and means by which the Fund's holdings of the member's currency can be reduced.

NOTE: No charge is made on use of the Fund resources in an amount equivalent to a member's gold subscription.

The WITNESS: This is a question of the interest rate on the fund's excess holdings of the currency of members. Again, it was one of the questions on which there was not an absolutely unanimous view at the beginning of the discussions at Bretton Woods. On the one hand we had the background that I referred to before—the fact that a great many people thought this whole arrangement was pretty free and easy anyway. From their point of view, to have made foreign exchange available without any interest and without any charges of this sort would have been to aggravate the offence already committed in making exchange available without any examination of credit worthiness. On the other hand, there is the view you have expressed, Mr. Quelch, that by charging the borrower, if we can use that term, interest, you are suggesting there is something inherently wrong in that borrowing and that he should not be borrowing, that it is evidence of some fault on his part.

By Mr. Quelch:

Q. Being unable to balance his trade.—A. Being unable to balance his accounts. Out of that conflict of view there grew this scale of interest charges. I shall attempt to explain these charges and indicate why, in the end, the conference adopted them.

The object of these charges is to ensure that there should not be a monetary advantage to a country in using the resources of the fund. The reason it is desired to make sure that countries do not actually make money out of using the resources of the fund is to remove temptation, to conserve the assets of the fund in a form that will be available for all members. Now, how would countries make money? Why do I say there is some reason that countries would make money out of using the resources of the fund if no charges of this sort were made? The alternative that a country has to using the resources of the fund is to use its own resources. Now, what happens if you use your own resources to meet a deficit in your balance of payments? Your resources will take one or two forms: either they will take the form of gold or they will take the form of foreign exchange. If they take the form of gold, then you have the cost of shipping gold to the centre whose exchange you wish to get and the

cost of insuring gold en route. If your resources take the form of foreign exchange then everything above a certain figure you will quite probably have invested in a foreign market; you may be holding treasury bills or certificates of indebtedness; you will be trying to make a little bit on your money.

Q. You do not allow the resources of the fund to be used for a capital investment?—A. No, that is right, sir; but I am talking now of financing a current account deficit, and I am contrasting the alternative of using your own resources or using the resources of the fund, and I am arguing that if you use your own resources you are involved in certain costs as a result: in the case of gold, the cost of shipping and insurance; in the case of foreign exchange, the loss of interest on the funds that were disemployed and that you sell to your importers. If you made it possible for countries to go to the fund without any charges, there would actually be a monetary advantage to them in doing so.

Now, that is, as I say, the general view that was put forward at Bretton Woods in favour of a scale of charges. The charges have been referred to and they are set out—I think members have the paragraph in front of them—they really are not exorbitant charges. You have the table in front of you, Mr. Quelch. The charges rise at the rate of one-half of one per cent per year, starting with no payment for the first three months and one-half per cent for the next nine months, and they also rise at the same rate according to whether a country is using 25 per cent, 50 per cent, 75 per cent or 100 per cent of its quota. I am afraid that all makes complicated listening, but I would like to summarize what some of the charges are so we will see whether in fact they are exorbitant.

Mr. IRVINE: Is there a maximum?

The WITNESS: The maximum? The 5 per cent—that is what Mr. Quelch is speaking about. If a country uses 25 per cent of its quota and it has that outstanding over a seven-year period, which is a much longer period than the fund would normally expect to finance because the fund is essentially regarded as a short term financing instrument—I wanted to take a longer period in order not to understate this case—if a country has used 25 per cent of its borrowing power consistently for seven years the average rate of interest which will be paid over that seven-year period is 1.98 per cent. If it uses 50 per cent of its borrowing power consistently for seven years the average rate it will have paid for that money for the seven-year period is 2½ per cent. If it uses three-quarters of its borrowing power for seven years—I remind you again that seven years is an abnormally long period to take—the average rate it would have to pay is 3 per cent.

Let me give another illustration. If a country uses its borrowing power to the maximum possible extent, that is to say, uses 25 per cent in the first year, 50 per cent in the second year, 75 per cent in the third year and 100 per cent in the fourth, and if the fund then waives the limitation and the country uses 125 per cent in the fifth year and the fund again waives the limitation and the country uses 150 per cent in the sixth year, the average rate of interest that that country will have paid on the total amount of credit that it has had during that six-year period is less than 2¼ per cent. Now, how does that compare with rates of interest in the countries that we are concerned with?

In Canada at the present time the average yield on dominion government bonds for a six-year period is 2.06 per cent. In view of that comparison I do suggest it would not be entirely accurate to refer to these interest rates as exorbitant or punitive interest rates. Mr. Quelch wants me to comment on the 4 and 5 per cent, the provisions under which—would you mind giving me the reference?

Q. Page 24, (d) of section 8.—A. “Whenever the fund’s holdings of a member’s currency are such that the charge applicable to any bracket for any

period has reached the rate of 4 per cent per annum, the fund and the member shall consider means by which the fund's holdings of the currency can be reduced. Thereafter, the charges shall rise in accordance with the provisions of (c) above until they reach 5 per cent and failing agreement, the fund may then impose such charges as it needs appropriate."

The 4 per cent rate is a danger signal. If a country has used 50 per cent of its quota by borrowing consistently for seven years, a very long period, which means that it must have been borrowing for more than seven years because it could not get up to 50 per cent in one year, then the danger signal of 4 per cent is reached. If a country uses 25 per cent of its quota consistently for eight years the danger signal of 4 per cent is reached. Then the rates continue to rise until they reach 5 per cent which means that the fund and the member have two years in which to try to see how to adjust that situation. It is contemplated that some mutually satisfactory method of adjustment will be reached.

Q. Such as devaluing its currency?—A. Devaluation might be one method of adjustment used. Another method might be for the fund to say to the country, "You are not really using this stabilization fund for the purpose for which it is intended. It is intended to finance short term transactions. You are using this to finance capital requirements."

Q. Is it not the purpose of the fund to try and maintain the balance of trade? I can quite agree that the fund would help to deal with a temporary situation but an unbalance may easily be a chronic condition and not due to the fact that the debtor nation is buying more than it can afford to pay for but due to the fact that it is having difficulty in getting the creditor nations to accept payment. That condition might easily be chronic. Therefore it seems to me if the purpose of the fund is to maintain the balance of trade it should be able to so operate as to bring about a balance of trade. I quite agree that a temporary situation could be handled.

Coming back to the scarce currency, because those two are really tied together, you mentioned the fact that if they placed a restriction against imports of goods from a country whose currency was scarce it could then import from another nation, but that condition could very quickly be repeated in another nation because we find that before the war certain nations were continually having trouble in balancing their trade due to the fact that the creditor nations were not anxious to balance their trade. They were using a favourable balance of trade to help maintain employment in their own country. I cannot see anything in the fund that will help to correct that. As you say it will correct it where the situation is a temporary one. You say that the fund should not be used for a chronic situation. That is the situation that needs treating. The only alternative would be a loan. Is borrowing going to help the nation if the situation is chronic? That just aggravates the question that much further because then it will have to export more goods to pay the interest on that loan. It seems to me there must be some provision in the fund to help bring about a balance of payments where you have a chronic unbalance.—A. I realize I am on the witness stand and not you, but I really would be greatly interested to hear what provisions could be inserted into a document of this sort to force a creditor country to balance its payments.

Q. So far as the framing of the regulation I would leave it to a lawyer because that is their job. I would say you would have to have some provision to compel a creditor nation to accept its responsibility of accepting payment in the only way that the debtor nation can pay, and that is with goods. I would say it is a moral obligation. This whole thing is supposed to bring about better feeling amongst nations, and we know that unfavourable trade has caused international friction. Until the creditor nations will assume their responsibilities I would say there is very little to be expected from this plan. It is true, as you

say, that during the war we have made advances, and we have recognized certain responsibilities, but as the minister has stressed time and again in wartime people will do things that they do not want to do in peacetime. I am afraid that five years hence that feeling may disappear and once again you will get into that bitter fight for foreign markets.

I have in mind the United States. I do not see any harm in mentioning names. We know that the United States has built up tremendous productive capacity. Until the United States is prepared to set their own house in order and maintain an effective demand against their own production they are bound by economic reasons to try to maintain a large favourable balance of trade. That applies to every industrialized nation. If Canada continues as we have in the past we will also be in that position. You will have all these highly industrialized nations trying to maintain a favourable balance of trade with the result that you will force a chronic condition of unbalance in countries that have to import goods. Therefore I do suggest that there should be a provision there to compel a creditor nation to accept payments not on a bilateral basis but on a multilateral basis. This is why I referred to the suggestion made by the London Chamber of Commerce. There is nothing unique about that proposal because there are many other proposals. I have read in the *Economist* proposals put forward by a man named Fee, I think it is.—A. Herbert Feis.

Q. And then there is Schumacher who has made a similar suggestion. It is a recognition of the fact we will never bring about a balance of payments until creditor nations accept their responsibilities. This does not bring that about because when you put a restriction against imports from a nation whose currency is scarce and divert your attention to another nation that situation will very soon occur in that nation. It will occur in one nation after another.

Mr. COLDWELL: I think there is a great deal in what Mr. Quelch is suggesting, but would it not be unacceptable to the nations on account of the fact they are standing by their individual sovereignty?

Mr. QUELCH: Why sovereignty?

Mr. COLDWELL: To place in an Act of this description a provision which would compel a nation to do something which would involve interference with its sovereignty.

Mr. QUELCH: In clause "D" you are compelling the nations to agree to certain impositions.

Mr. COLDWELL: What you are suggesting is a further interference with sovereignty. Mind you, I am not opposing the idea.

Mr. QUELCH: I am asking that equal pressure be placed upon creditor nations. I have the idea that this seems to take the view that the debtor nation is the one to blame. We are all agreed there will be some nations which, like private debtors, will try to get goods without paying, but we must recognize the fact that there are nations which are anxious to pay. I have in mind the case of Australia in 1930. The Niemeyer mission went to Australia in 1930 and told them the only way to balance their trade was to balance their budget and reduce expenditures. I think you will agree that is not the solution. Australia had surplus goods to export and they could not export them. They were told by that mission that the only way to balance payments was to bring about a deflationary policy. Surely we can find a way of balancing payments through expansion rather than restriction.

Mr. MACDONNELL: Could I ask a question? I have this in mind as to what Mr. Quelch is asking, and I preface it with two remarks. One is a remark which you yourself made, Mr. Rasminsky, once or twice this afternoon, when you referred to this fund. I think you used the words that it

would give us a "breathing spell." As I understand it Bretton Woods is a monetary arrangement which you people who drew it up hope will be followed and supported by trading arrangements.

The WITNESS: Right.

Mr. MACDONNELL: I think what is in the mind of many of us here is a kind of fear that this may be doomed to failure because the United States has not yet learned that trade is a two-way street. I wonder if you would say a word about that because I take it in devising this and working it out you must have calculated in your own mind what its chances of success were. The other thing I want to ask is that this afternoon you gave us an illustration of the kind of situation in which this fund might be used by our own country. You described a situation where we might be faced with the necessity of looking for a remedy and where this fund would provide us with that remedy. I think you gave the figure of \$75,000,000 in foreign exchange that we could buy from the fund.

The WITNESS: For four years.

Mr. MACDONNELL: For four years. It would be of interest to me if you would give us an idea of an actual situation which might arise. I should like you to say something first of all in general about your feeling as to whether the United States has learned that lesson and secondly if you would take a situation in Canada, let us say, and construct this situation which I have no doubt you must have done in considering this plan and give us an idea how practical the \$75,000,000 available in that way might be to give us the breathing spell that you spoke of. I think we all realize that Bretton Woods is not magic which can do everything. Personally I like your words, "breathing spell". Perhaps you could include my questions in the question which Mr. Quelch has asked.

Mr. QUELCH: At the same time might I include another question? I am not in favour of the term "breathing spell" at all. This is supposed to be a permanent solution, not just merely a breathing spell for after the war. As a matter of fact it does not deal with the immediate position after the war because we recognize a transitional period there of five years.

The CHAIRMAN: The witness has had a lot of questions put to him. Might we give him an opportunity to answer a few of them?

The WITNESS: If I may I should like to go back to Mr. Quelch's original question, or rather his reply to my question. As I understand it the main point that Mr. Quelch is making is that countries should really not have a surplus of exports, that by having a surplus of exports, as he and other members of the group here have put it, you are exporting unemployment.

By Mr. Quelch:

Q. Against the will of the importer. I understand there is a need for a certain amount of investment.—A. If the importer does not want the goods they are not bought.

Q. I mean there will be some nations which are not able to pay for their imports. Therefore they will desire to have a loan, and therefore there will be a certain amount of room for exports. I take it that every nation is anxious to pay for their imports and therefore should have the right to pay for them with exports.

Mr. BLACKMORE: May I bring up another point there which might be answered at the same time?

Mr. BRADETTE: I believe that one question at a time should be answered. It is leading to confusion as far as I am concerned.

Mr. BLACKMORE: This will help the answer. It will help to clarify the situation. Suppose the United States because of her tremendous productive potential is able to undersell British industry on British markets and forces her goods into Britain against the will of Britain in spite of tariff and every other protective device. Then there is developed an adverse trade balance for which Britain cannot possibly be responsible. To guard against what might result from that situation we need to be very careful.

The CHAIRMAN: Now, gentlemen, we have a very heavy debit balance of questions built up. I wonder if we can let the witness establish a credit balance on questions.

Mr. BRADETTE: Hear, hear.

The WITNESS: I would like to try to deal with these consecutively, if I may. Going back to Mr. Quelch's first question which I think is in some ways the most important that has been raised in this whole debate; is it wrong for countries to lend abroad; is it wrong for countries to have a favourable balance of payments—

Mr. QUELCH: I am not saying that, mind you; I am not saying it is wrong for a nation to lend abroad if the nation wants to borrow. I am saying that it is not right for a creditor nation to force an importing nation to borrow when it desires to pay. Get my point.

The CHAIRMAN: Mr. Quelch; would you mind letting the witness have the floor?

Mr. QUELCH: I did not want him to get off on a wrong premise.

The CHAIRMAN: I think if you are patient you will get your answer.

The WITNESS: I would say that the process of foreign investments is a process which has contributed very, very greatly to the economic development of the world.

Some Hon. MEMBERS: Hear, hear.

The WITNESS: I think that Canada should in a sense be the last country to be surprised that that is the case. In the course of the nineteenth century the United Kingdom had a large export surplus and built up a very large investment abroad. And now, I find it extremely difficult to believe that Canada has suffered as a result of that British investment in this country, which would seem to be the logic of the view that you expressed, Mr. Quelch.

Mr. QUELCH: No.

The WITNESS: Perhaps you will tell me later where I am wrong. No, let us take that as agreed ground, let us assume that I am wrong in what I have just said and that in point of fact it was not the process of foreign investment that was the bad thing. I take it Mr. Quelch will say that the United Kingdom behaved as a good creditor should, that she had no tariffs and she was willing to accept imports in exchange. The whole point that is being made in this connection is not that a surplus of exports is wrong, it is not the foreign lending that is wrong; the point being made is that the United States can be counted upon to act as a bad creditor.

Mr. QUELCH: As in the past.

The WITNESS: That is the point really that we have come to.

Mr. QUELCH: I say, on her past record.

The WITNESS: You say that the United States on her past record can be counted upon to act as a bad creditor. I would reply to that that on the basis of the experience before the war there is reason for misgiving regarding the willingness or the ability of the United States to carry out the type of economic policy appropriate to her creditor position. What are the features of

an economic policy that are appropriate to the position of a creditor? They are two, I think; the first is the maintenance of high levels of domestic employment and income—

Mr. BLACKMORE: That is right.

The WITNESS: That is factor A in determining the volume of imports; second, the maintenance of reasonably low tariffs.

Mr. BLACKMORE: That is right.

The WITNESS: So that countries which want to discharge their obligations in the only form in which it is possible to discharge international obligations, namely in kind, can do so.

Mr. BLACKMORE: Yes.

The WITNESS: Well now, is anyone in the United States interested in maintaining unemployment or in maintaining incomes at low levels? Surely it would be wrong to assume that any single country, whether that country be the United Kingdom, Canada or any other country, has a monopoly on the desire to maintain high incomes and employment. No country can give you a guarantee that it is going to be able to maintain high incomes or employment—all that a country can do is demonstrate that its policies will be directed in that sense. And I think that the members of this committee are aware of the various evidences of thinking in the United States along those lines.

Now, I agree that on the past record there is reason for anxiety, there is reason for some preoccupation. This fund, these arrangements through the breathing space they provide tend to relieve that anxiety a bit, because as I said this afternoon they provide some slack in the ties between the Canadian economy and outside economies. Now, on the second point, the low tariff point, I have here a paper that was tabled in the House to-day, proposals for the expansion of world trade and employment, communicated by the United States government, which I think all of the members have had an opportunity of reading. The paper will indicate a remarkable initiative in the direction of tariff reduction. I am not prepared to defend or even discuss the details of this proposal. I do not know whether they are adequate or not. All that I am arguing, and I think it is self-evident, is that they do indicate an awareness on the part of the United States of her responsibility as a great creditor nation for taking the lead towards tariff reductions.

Mr. MACDONNELL: Have they not done something in that direction already?

The WITNESS: I am very glad you have reminded me of that. In the Reciprocal Trade Agreement Act quite substantial tariff reductions have been initiated. It remains the case that the American tariff is still a high tariff and there is a lot of room left for reduction, but I do think this document—

Mr. MACDONNELL: The president has the power to make further reductions, has he not?

The WITNESS: The president has recently been given the power to make further reductions in the existing American tariff rates. I do repeat that I think proposals of this sort do indicate a real desire on the part of the American officials and the American government to adjust themselves to their international position. Let me read you one clause from the financial agreement between the United Kingdom and the United States. For the members who have this proposal, it is on pages 28 and 29, the section headed, "Waiver of interest claims".

In any year in which the government of the United Kingdom requests the government of the United States to waive the amount of the interest due in the instalment of that year, the government of the United States will grant the waiver if:—

(a) The government of the United Kingdom finds that a waiver is necessary in view of the present and prospective conditions of international exchange and the level of its gold and foreign exchange reserves and

(b) The International Monetary Fund certifies that the income of the United Kingdom from home-produced exports plus its net income from invisible current transactions in its balance of payments was, on the average, over the five preceding calendar years less than the average annual amount of United Kingdom imports during 1936-1938, fixed at pounds 866 million, as such figure may be adjusted for changes in the price level of these imports. Any amount in excess of pounds 43,750,000 released or paid in any year on account of sterling balances accumulated to the credit of overseas governments, monetary authorities and banks before the effective date of this agreement shall be regarded as a capital transaction and therefore shall not be included in the above calculation of the net income from invisible current transactions for that year. If waiver is requested for an interest payment prior to that due in 1955, the average income shall be computed for the calendar years from 1950 through the year preceding that in which the request is made.

The general effect of that is that if the payment of interest on the loan, in the opinion of the United Kingdom government, would cause its imports into the United Kingdom to fall below the physical quantities, not the values but below the physical quantities, imported on the average in the three years preceding the outbreak of this war then the United States government waives interest on that loan.

I do suggest that, in the light of the things I have mentioned, that it is going further than the facts warrant to say that the United States can be counted upon to behave like a bad creditor nation; that the United States has no consciousness of its responsibility in the world; and that the United States can be counted upon to live in a state of perpetual depression.

Mr. QUELCH: Well, Mr. Chairman, the witness I think will agree then that the success of the Bretton Woods agreement will very largely depend upon a change of heart or the part of certain creditor nations. I want to say here that I do not for one minute want to leave the impression that I am pro-British and anti-American. I merely used those two countries as a convenient example, that is the only reason I had in using these two countries by name. I am not anti-American in any shape or form, and as I proceed I will use the terms A and B for reference—

The WITNESS: If I may suggest they should be used in the opposite order.

Mr. QUELCH: I recall that after the last war, in 1918 and 1919 it was stated that these war debts would never have to be paid, and the opinion seemed to be very strong in America and in Britain and in this country; and we know how years later that the good feelings generated by the two countries working together in war had waned and a great deal of friction developed over the question of war payment. I think it is fortunate now that definite action has been taken on the question of war debt. We have every reason to rejoice at the new agreement that has been passed in regard to lease-lend. But I do say this, that if we can really feel confident that there has been a change of heart, and that America really intends to do everything in her power to accept her responsibility and accept payment in imports from the countries that desire to pay for their imports with exports, then surely they should be prepared to have some provision included in there which binds them to do that very thing. I can not look upon this as merely a breathing spell. It is not a question of a breathing spell (it will be, we hope), but we want some agreement to maintain stable balance of payments over a long period of time. I do agree that foreign investment is beneficial to a country

which needs to have investment made in that country. All new countries need people to invest capital in their country. But a country which is already industrialized is not in that position. It does not help them, it just increases their debt. They are importing raw materials and they have to pay for them in manufactured goods. For any country to loan money to that nation is not helping the situation out, it is merely aggravating the problem on both sides; first of all, the better state will be exporting more goods to pay the interest to the creditor state, and they will have to give us more imports in payment of the interest, so that it aggravates the question on both sides. You asked, what could be done. I will quote from the Twentieth Century Economic System of the London Chamber of Commerce which deals with the question. Against that I want to set the fact that the London Chamber of Commerce is just one body which has put forward this proposal, and it is just one of four or five different proposals which have been made in Britain. And then, the other one referred to—Feis.

The WITNESS: Formerly with the United States State Department.

Mr. QUELCH: Let me quote the suggestion made by the London Chamber of Commerce; and when I refer to the London Chamber of Commerce we should remember that it is an organization which has probably had more experience in this matter than any other organization. It is one of the oldest export and import countries of the world. Among its members are directors of the Bank of England, you have business men, you have economists; so their suggestions cannot be just dismissed with a wave of the hand. Let me read what they suggest. This, by the way, is the Twentieth Century Economic System, endorsed by the London Chamber of Commerce.

Mr. MACDONNELL: Is the author of that bill anonymous?

Mr. QUELCH: Well, I think we all know his name.

Mr. MACDONNELL: I do not.

Mr. QUELCH: I do not like to mention the name in view of the fact that it says the name of the author is anonymous. In view of the fact that it is marked anonymous, I would hate to mention the name; but the point is that in the London Chamber of Commerce proposals, they recommend the adoption of the Twentieth Century Economic System. That is why I quote it. Turning to page 25, at the bottom of page 25 it states:

The above is a simple example of bilateral trade, but multilateral trade could be provided for by the Exchange Controls of the participating nations having representatives at an International Exchange where blocked credits in one country could be exchanged for those in another at the conventionally fixed exchange rates: the primary responsibility for establishing a contra account, by importing from the country to which a sale had been made, would remain with the exporting country. If it did not wish to do so that would be its affair and not that of the importing country, which would have done its part by establishing the necessary credit. The importing country would be entitled to cancel the credit, under a Statute of Limitations, if it were not used within seven years. The principle is that with which we are all familiar in internal trading: if you have a credit with a shop, you cannot take it out in cash but you clear it when you take goods.

Then at the bottom of the page it explains the proposal and it states:

The International Exchange would in no sense be an International Bank nor would it be the body with which all the nations would hold their debits and credits. Psychologically it is important that each nation should know in which countries it has uncancelled credits, so that it may take steps to clear those credits either by taking more

imports or by restricting its exports to them. The responsibility which this scheme places squarely upon each nation to keep its own imports and exports in equilibrium, must in no circumstances be transferred to a Central International Clearing Bank. If a Central International Bank were entrusted with this task instead of each nation being free to solve its own domestic problem in its own way, we should once more be back to the old condition of financial war to control a central monetary authority which, in its turn, would control the domestic affairs of so-called independent nations. In practice, such a system of central international monetary control means that whilst effective pressure cannot be put upon the strong creditor nations to take payment in goods against their wishes, great pressure can be brought to bear upon the weak debtor nations to lower their prices in an attempt to force their goods over the tariffs of creditors unwilling to receive payment in the only way open to the debtor, namely, in goods.

I would say that under a statute of limitations, if it were not used within seven years—well, I am not taking seven years. I just happened to see seven years here.

The CHAIRMAN: Mr. Quelch, would you now put your question?

Mr. QUELCH: My question is this. Why would it not be logical to carry out that provision in such an agreement as Bretton Woods? I might state that I would be far more friendly, and it would largely remove my objection to the Bretton Woods agreement if a creditor nation accepted its responsibility to clear its credit abroad.

Mr. COLDWELL: In other words, if there was something in this agreement which would force or compel the creditor to act differently to the manner in which creditors have sometimes acted in the past.

Mr. QUELCH: Yes.

Mr. COLDWELL: I think there is something in that. But to me that seems to look towards a world organization and world government with the authority to compel certain things, something which I understood my honourable friend was opposed to.

Mr. QUELCH: You are putting huge pressure on the debtor nation. Why not put equal pressure on the creditor nation? You are putting it on the debtor nation now.

Mr. COLDWELL: All right.

Mr. QUELCH: And it is not a world agreement. You are doing that under clause 8. Keynes stressed that very strongly in his argument, not merely in the clause I quoted; if you read at the bottom of the page, he stresses, in the last pages of the introduction, the great responsibility that a creditor nation has to balance its payments. I am suggesting that it would not be beyond the powers of lawyers to phrase a section in the Act to cover that very thing.

Mr. COLDWELL: If you are going to have it phrased by lawyers, you must have something to give the lawyers power to phrase it.

Mr. QUELCH: I thought probably the lawyers worked this out under the instructions of the economists. It may be that I am wrong.

Mr. BRADETTE: Do you want to use force in that agreement?

Mr. QUELCH: You are using it now under clause 8.

Mr. BRADETTE: There is no use of force there.

Mr. IRVINE: I think that while the system suggested by Mr. Quelch may be a very good one, unfortunately it is not before this committee. We have only the one thing before us, and that is the Bretton Woods agreement.

Mr. QUELCH: Wait a minute. Is that right, Mr. Chairman? I thought we were discussing the merits or demerits of the Bretton Woods agreement.

Mr. IRVINE: Yes, but not a new proposal. We cannot amend it.

Mr. QUELCH: Then what are we here for? What good is this committee?

Mr. COLDWELL: All we can do is get to understand it.

Mr. QUELCH: We might as well send it back to the House.

Mr. IRVINE: That is largely true, but we want to understand it, so we will know whether we want to support it or not.

The CHAIRMAN: In order to finalize what Mr. Quelch has said, might I just have a minute. Do I understand you correctly as saying that you believe this Act to be a move in the right direction but that it does not go far enough?

Mr. QUELCH: No, I would not say that. I would say this, that so long as it does not realize the responsibility of the creditor nation, by removing to a certain extent the full powers of a nation to devalue its currency and impose restrictions—I do not say altogether—it is to a certain extent removing the defences of a nation against an unbalance of trade without on the other hand providing any insurance that the creditor nation will balance it. It is removing a nation's defences.

The CHAIRMAN: Have you not overlooked this fact, Mr. Quelch? In addition to being a move in the right direction and a move which will be what might be termed a temporary assistance, your complaint is that it does not attack a chronic problem.

Mr. JACKMAN: Hear, hear.

The CHAIRMAN: Have you not lost sight of this fact, that through this fund the nations of the world are setting up machinery whereby official representations can be made to any creditor nation that is acting in a manner in which they should not act? Is this not a distinct move in the right direction, the way you want us to go; and why should we say, "No, we will not have any of it" simply because it does not go far enough? Why should we not cheerfully accept it and say, "Yes, it is a move in the right direction, but we think it should go further." You cannot expect a creditor nation to voluntarily give up all of its preferred position at once. It has to be done by steps.

Mr. QUELCH: Well, the preferred position of a creditor nation is that it is able to produce more goods apparently than the people need. I am not actually saying that, but it apparently is the only explanation for its exporting goods, except on moral grounds.

The CHAIRMAN: I cannot understand why you would attack this pact because it is a move in the right direction.

Mr. QUELCH: For the very simple reason that it only provides a breathing space, to use the witness' own words, and it does not deal with a chronic condition.

The CHAIRMAN: Plus the machinery whereby—

Mr. QUELCH: But in order for a nation to carry itself over a breathing spell, at the same time it is binding itself to certain rules and regulations, as a result of which it may find itself in a position where it cannot meet its payments and where eventually it may find itself in the position of clause (d). Then what happens if they cannot pay? Then you have already removed its defences by not giving it the power to devalue its currency to the extent it may want to or to impose the restrictions it may want to impose. You are removing its defences and leaving it to a large extent defenceless. Let us come back to the section that the witness referred to—

Mr. CROLL: I was going to ask this question.

Mr. FLEMING: I rise on a point of order.

The CHAIRMAN: I have a point of order at the end of the table.

Mr. FLEMING: With all due deference to the members who have been participating, I thought we had decided yesterday that when witnesses were called, we would hear the witnesses through and not engage in any argument. If there are questions to be put to the witness, I would suggest that they be put as simply as possible and as consecutively as possible. If we are going to get into a free for all discussion and argument such as has been going on, I do not think we will ever finish, because we are apparently on different ground entirely.

The CHAIRMAN: I think you are right, Mr. Fleming.

Mr. COLDWELL: I was going to ask the witness a question as to whether in his opinion the world would be better off with or without this agreement.

Mr. QUELCH: On a point of order, Mr. Chairman, may I just mention that the witness asked me a question and started me off.

The WITNESS: Mr. Quelch, I wish it were not too late to withdraw the question.

Mr. COLDWELL: I was following Mr. Quelch's line of argument and just asking if he infers from the argument that has just been presented, that the world would be better with or without this agreement.

The WITNESS: To be perfectly frank, I made that inference long before this argument took place.

Mr. COLDWELL: I mean, following this line of argument.

The WITNESS: If I may comment on this line of argument, if what Mr. Quelch is saying is that on the assumption that creditor countries are going to behave badly, in a way that is inappropriate to their creditor position—

Mr. QUELCH: That has been their record.

The WITNESS: Well, that has been the record, but the only example of the record that has been cited is the case of one country for a limited and vastly abnormal period of time.

Mr. QUELCH: And it will be in a very peculiar position after the war. It will be even more necessary for it to adopt that attitude after the war than it was before, because it has expanded its production to a tremendous level.

Mr. FLEMING: On a point of order, Mr. Chairman, I should like it to be quite clear which is the witness, Mr. Rasminsky or Mr. Quelch. I say that with all due respect for the honourable member, but let us have one witness at a time. Mr. Rasminsky is on the stand. Let us hear his evidence. Then if Mr. Quelch would like to give evidence, he certainly should have that privilege. But I am afraid we are going to get into great confusion if we try to blend the evidence of two witnesses simultaneously.

Mr. QUELCH: I am quite prepared to ask questions and not reply, as long as it is understood that we are doing that, and that the retort is not made, "There is the answer and you did not reply." With that understanding I am prepared to ask questions and accept them without reply.

The CHAIRMAN: Thank you, Mr. Fleming. I think you have made a very helpful suggestion.

Mr. JACKMAN: May I ask Mr. Rasminsky—

The CHAIRMAN: Before that question is asked, Mr. Jackman, there is already a question from Mr. Coldwell. Would you please answer that, Mr. Rasminsky?

Mr. BLACKMORE: Mr. Rasminsky had answered.

STANDING COMMITTEE

The CHAIRMAN: Mr. Coldwell asked a question, as I recall it, as to whether Mr. Rasminsky thinks the world would be better or worse off with the Bretton Woods agreements.

Mr. COLDWELL: No, if he inferred from Mr. Quelch's reply that the world would be better off or worse off.

The WITNESS: May I answer that question, and I think also Mr. Quelch's observations, in this way: if support for this proposal is warranted only if it cures all the economic ills of the world, then I think that opposition to the proposal is justified. This proposal does not do that. This proposal has a more limited objective. The general objectives I attempted to describe this afternoon. If it is alleged that behaviour on the part of creditor countries inappropriate to their creditor status is going to make the operation of this fund more difficult, then I say that that is true; and that will also make more difficult the operation of the other things, for example, the proposals regarding the expansion of world trade and employment which have been produced by the United States government and tabled in the House to-day. It is going to make the operation of those proposals more difficult. I think that is perfectly right. That point, as a matter of fact, is a point that the Canadian group that was concerned with these matters laid a great deal of emphasis on. I am reading now from the Tentative Draft Proposals of Canadian experts for the International Exchange Union:

9. It seems apparent that, in one way or another, substantial unregulated movements of capital between countries will be prevented. In these circumstances, countries will, by and large, lose or gain foreign exchange to the extent, but only to the extent, of the unbalance in their current account transactions with the rest of the world. If a country is building up a substantial credit position, it will know that this situation is produced because it is selling more goods and services abroad than it is buying abroad. If it is dissatisfied with this position, if it wishes to reduce its credit balance, it has through participation in the proposed organization lost no single one of the courses of action ever open to it. True, it is by no means easy for a country, acting alone, to solve problems of unbalance. But as a last resort a country can find a solution by unilateral action. It can do the only things it ever could do in these circumstances; it can buy more abroad—goods, services or investments; or it can sell less abroad. It is therefore quite wrong to assume that countries participating in the proposed institution would, because of this participation, be left without control over their international commitments.

And then in paragraph 11:

11. To avoid misunderstanding it should be emphasized that it would be extremely dangerous to use short-term credits as a device to cover up basically unsound positions. This would be no less disastrous in the international than in the domestic field, and any monetary system which made such an attempt on a large scale would inevitably break down. A chronic unbalance in current account balances of international payments which is not matched by voluntary long-term capital movements—lending abroad by creditor countries, and borrowing abroad by debtor countries—is symptomatic of a deep-seated maladjustment which has to be dealt with if equilibrium is to be restored. No debtor country can live beyond its resources indefinitely; and no creditor country can persistently refuse to lend its surplus abroad or make other adjustments to its creditor position without ripping the international fabric.

By Mr. Quelch:

Q. Will you apply that to an industrialized nation with a chronic unbalance, which is producing the goods to pay the balance and cannot because the creditor nation cannot take them? A loan will not help it.—A. Do you mind if I finish the comment I was going to make?

Q. No.—A. The recognition of the responsibility of a creditor nation for action that will, over a period, balance its international accounts is not confined to any particular group or to any particular section of economic opinion. That is quite widely held and I do believe that it becomes increasingly widely held. Now, the fund, it is admitted, does not produce that state of balance at a high level in the accounts of all countries that we want to see. Certain proposals have been mentioned earlier this evening by Mr. Quelch. I am sorry I have not read the Twentieth Century Economic System, but I listened carefully to what Mr. Quelch read. The system, as I understand it, is one in which countries will establish credits for their imports and then try to clear those credits with each other—not necessarily bilateral.

Q. Multilateral.—A. Through shopping the surpluses around and trying to match them off, and any remaining surpluses which it did not avail itself of to pay for imports or, I take it, through current account transactions over a seven-year period would be cancelled, would be wiped out. It is similar to a proposal that was made by Herbert Feis who used to be the economic adviser of the United States State Department, which was published in the American magazine Foreign Affairs three or four years ago. I said earlier to-day in my original exposition of this plan that with a certain amount of reluctance the group that had been working on this in Canada came to the conclusion in the early part of 1943 that the Keynes plan was not practical, that general acceptance could not be found for the Clearing Union plan. If we were right in that, and certainly nothing that has happened since has led me to revise that view, what possible chance would there be of getting acceptance for this proposal? We would have to go to Mr. Ilsley and Mr. Ilsley would have to go to parliament and ask for an amount of money which he was not able to specify; he would have to ask for an open-ended appropriation. We do not know what our balance on payments on current account is going to be. Under the Fund proposal we are able to say that if the Canadian dollars that we put into the fund are used up to buy goods in Canada we can always get that back by importing more from abroad. In this other proposal Mr. Ilsley would have to say to parliament that if this is not used up in seven years this will be cancelled; it will have turned out to be a gift.

Now, it is not for me to say what the attitude of this parliament would be to a proposal of this sort, but as I say, if in fact we were right in having come to the conclusion that the clearing union plan was impractical—and I remind you that the author of the plan must have come to the same conclusion himself—then how much more impractical is this proposal, whatever the theoretical attractiveness of it may be? If that is right, if this proposal is, in fact, impractical then what position are we faced with? Are we going to say: "No, because we cannot get what may be the best thing for us to get, the thing that we conceive to be the theoretically perfect thing, we will not have anything at all." Are we to say that we will let the United States go its own way; that we won't make the effort at international co-operation to the maximum extent possible, and that we are willing to suffer all the consequences of that decision.

Q. Would not the answer to your proposal be that the nation would immediately get busy and import goods so it would not be giving them away? It

might be you would have to have more of an expansionist policy so that the people could buy those imports. I am sure the people would criticize a government that deliberately threw goods away by not importing.

Mr. IRVINE: Why not do that now?

Mr. QUELCH: Yes.

Mr. IRVINE: The fact is we do not.

Mr. QUELCH: That is the fault of the government.

By Mr. Quelch:

Q. Let me ask the witness this question. Does it not boil down to a question that no matter what kind of multilateral system you have if it is going to be successful every nation will have to put its own house in order when maintaining effective demand against its own production, apart from the amount of goods that will have to be exported as a loan on moral grounds?—A. If what you say is that it is an important condition of international stability, of the successful functioning of an international economic system, that the largest industrial countries in the world should maintain their incomes and employment at a high level, I agree with you. I think it is.

Q. May I answer the question with regard to the clause you referred to to-day? Now, if anyone wants to ask questions let them do so because I do not want to be charged with monopolizing the time.

Mr. MACDONNELL: I asked to have my question answered. It was rather lost in the shuffle. I did ask if the witness would go back to what he said this afternoon, taking an actual case and giving us an idea as to how effective the actual amount of currency available would be in tiding over the difficulty. He mentioned Canada this afternoon. If he would take some other country the illustration would be just as good for me. I felt I would like an illustration from him of an actual case. It would have to be hypothetical, of course. On the face of it it might look as if \$75,000,000 for Canada would be rather small to be of any use in the conditions such as he outlined this afternoon, but maybe if we appreciate all the facts of the situation it would look much better.

The WITNESS: Well, Mr. Macdonnell, the question is to illustrate concretely what is the value of the quota to Canada? Now, as a matter of fact, I think that for some time to come Canada is likely to have a surplus in its current account transactions. If we do have a surplus in our current account transactions we are not likely to be net purchasers of exchange from the fund. On the other hand, there is certainly no assurance that we will have a surplus in our international transactions, and particularly if there is a low level of employment in the United States; and if we are more successful than the United States in maintaining employment and incomes at a high level in this country, then it is quite likely, it is quite possible, let me say, that we would have a deficit in our international transactions. You really want to know how big a figure \$75,000,000 is; that is really your question?

Mr. MACDONNELL: Yes.

The WITNESS: The magnitude of that deficit I can perhaps try to illustrate by reference to some of the years in which we did have deficits. In the year 19—

Mr. Low: 1938.

The WITNESS: In 1938 I think we had a surplus.

Mr. Low: In the United Kingdom but not in the United States.

The WITNESS: Oh, if you are prepared to take a deficit with the United States—

The CHAIRMAN: Please do not confuse Mr. Macdonnell's question; let the witness answer that question first.

Mr. Low: It is the same question.

The WITNESS: Let me take a deficit with the United States, it is easier to deal with. To get a deficit of any size in a period that I have the statistics for and in a year which was before the war—because, of course, our deficits with the United States after the war were abnormally large due to the large imports of war goods—let us take a year like 1934, for example. We had a deficit of \$80,000,000 with the United States. That would mean in that year even if we had no independent monetary reserves of our own our access to the resources of the fund would have enabled us to meet that deficit with the United States. In 1933 our deficit was \$113,000,000. It was a good deal larger. The \$80,000,000 was a low figure.

By Mr. Macdonnell:

Q. Do you take it purely with the United States?—A. I do because Mr. Blackmore asked me to.

Q. That was not my question.—A. I started with all countries. I am sorry, I should not have got into this confusion. Taking it for all countries, and one really should because the whole basis of this thing is convertibility, in 1934 there was a deficit of \$46,000,000, in 1933 a deficit of \$84,000,000, in 1932 a deficit of \$166,000,000, and in 1931 a deficit of \$231,000,000. Now, it is quite clear that the quota in the fund by itself would not have been sufficient in our case to have enabled us to meet these deficits for four years. On the other hand, the quota in the fund is not regarded as a substitution for a country's independent monetary reserves, but is regarded as an addition to the country's independent monetary reserves. It would give the country greater confidence in meeting an adverse balance of payments of this sort without going in for a deflationary policy or imposing import restrictions because it knew that the quota was there. It is a sort of iron ration. No country is willing to allow its international monetary reserves to get to zero. The total amount available to a country is not the amount in the published figures. Every country will have its own ideas as to what is the basic minimum reserve that it feels it must keep.

Q. In point of fact we got through those years without any such thing. How did we do it, by borrowing?—A. You mean how was our balance actually met in those years?

Q. Yes.

By Mr. Jackman:

Q. Where those figures on current account or capital account combined?—

A. I have given you only the figures on current account.

By Mr. Irvine:

Q. Does that include invisible exports?—A. Yes, but the figures I gave do not include current gold production which makes the third mistake I have made in answering this particular question. The figures including current gold production are a good deal smaller than that.

By the Chairman:

Q. Would you give us those?—A. The figure for 1934, including current gold production, was a surplus of \$68,000,000, in 1933 a deficit of \$2,000,000, in 1932 a deficit of \$96,000,000, and in 1931 a deficit of \$174,000,000. That makes a cumulative deficit for those four years of—

By Mr. Macdonnell:

Q. We had exchange depreciation in those years.—A. Yes, we did—of \$204,000,000, so over that four year period the \$300,000,000 borrowing power we have in the fund would have enabled us to meet that deficit.

Q. I do not want to press this point and make it too complicated, but I should like to ask one further question. Suppose this fund had been available then. Do you think it is a reasonable supposition that we might not have depreciated our currency? In other words, that barrier to trade might not have taken place in 1931?—A. I really do not know what the answer to that would be.

By Mr. Quelch:

Q. From 1935 on we had a favourable balance over all, did we not?—A. Yes.

By Mr. Bradette:

Q. For the correctness of the record what was the amount of the export of gold during the years you have mentioned? I am interested in that.—A. The amount of the export of newly mined gold production.

The CHAIRMAN: I take it you want to prove that northern Ontario gold saved the country.

Mr. BRADETTE: I am not talking about the gold standard but about gold production.

The CHAIRMAN: I think we will admit that.

The WITNESS: I would have to make a calculation.

Mr. BRADETTE: That is all right. Later on will do.

The CHAIRMAN: While the witness is making that calculation, Mr. Quelch has raised a point that I think was well raised and that perhaps the committee should now decide. He has more or less led this evening in asking questions, and I take it has pretty well exhausted his questions.

Mr. QUELCH: No, I have a lot more.

The CHAIRMAN: I am assuming too much then. I wonder if the committee should not agree as to a fair rationing of the time so that all of the different groups will have a fair opportunity to ask questions.

Some Hon. MEMBERS: Hear, hear.

The CHAIRMAN: Mr. Quelch, how much more of the committee's time do you think it would take to exhaust your questions in a reasonable way?

Mr. QUELCH: It depends entirely on the witness' answers.

The WITNESS: If you are satisfied with short answers I am prepared to give them.

Mr. QUELCH: No, I am not. I would much rather that you extend it because after all what is the good of the committee at all if you are going to cut down answers to save time? I wonder if I could put one short question.

The CHAIRMAN: Before we have any more questions let us see if we cannot make an arrangement which will be fair and satisfactory to all groups. Great Britain set aside three days, I believe, for discussion by their House of this measure. Keeping that time limit in mind would you please indicate, Mr. Quelch, how much longer you think your group should have?

Mr. QUELCH: Let me say that I am not going to ask one single question for the purpose of obstruction.

The CHAIRMAN: I knew that before you told me.

Mr. QUELCH: I think that the witness will agree that every question I have asked is an important question and one that should be asked and answered.

I have only asked two questions. That is what I have got down on my paper but you see what has developed. I should imagine that a day would cover it easily.

The CHAIRMAN: I will settle for one more meeting.

Mr. BLACKMORE: I wonder if it would be worth considering that we give each group say half an hour or fifteen minutes.

The CHAIRMAN: I do not think that would lead to enough continuity. I think it is only fair that one group should have a reasonable time and then should voluntarily sign off and say, "We have had our share. We will let someone else talk."

Mr. COLDWELL: Mr. Chairman, if we could ask short questions I think it would help. Personally I think what we are trying to do is to elicit information, not to give information. If we are eliciting information we can ask a short question and perhaps get a longer answer out of it.

The CHAIRMAN: I think if we do agree to allot the time the questioner will cut his cloth accordingly and will ask short questions and will not get into an argument with the witness.

Mr. IRVINE: I think it is important that we decide when we want to finish our consideration of the bill.

Mr. QUELCH: How long has the committee got?

The CHAIRMAN: I do not know. I am in the hands of the committee but I would say that this measure must undoubtedly reach the House not later than Friday morning if we are to achieve the object we are all seeking to attain, prorogation on Saturday. I have asked the witness and the committee reporters and they are quite prepared to hold three sittings a day until we are finished if it is necessary. If one more sitting would conclude your questions and you would be content we could take to-morrow morning and finish with the questions by the Social Credit party. Then I would suggest that the Progressive Conservative party should indicate what time they would like and we will try to work it out so that everyone will have a fair hearing and have a fair opportunity to advance their position.

Mr. QUELCH: How would it be to give us a day, then let the rest ask their questions and see how much time is left after that?

The CHAIRMAN: We will have a show of hands on this.

Mr. COLDWELL: There is just one question I should like to ask. If, as you suggest, this goes back to the House on Friday morning are we going to have another prolonged debate when we get back to the House? If we are going to have a long debate there then Friday is a long way off.

The CHAIRMAN: Most people respond to good treatment, and if the Social Credit party feel they have had a fair deal in the committee I am hoping there will be no discussion in the House, that this committee's report will be adopted without any serious debate.

Mr. QUELCH: I am perfectly satisfied so far.

The CHAIRMAN: May I have a show of hands? All those in favour of the Social Credit party having the morning—

Mr. BLACKMORE: We do not want to take our turn only once. I think that is not in the best interests of the committee. People would have to sit here for two or three sessions listening to no one but us.

The CHAIRMAN: They have cheerfully done it so far and it has been interesting.

Mr. Low: I think some were getting pretty wearied, and I would suggest an hour of a half an hour turn about.

Mr. BLACKMORE: I think that is better.

Mr. JACKMAN: Then we have to have the statement on the bank yet.

Mr. COLDWELL: We have got to get some evidence on the bank.

Mr. LOW: I think it would be more interesting to do it that way.

Mr. JACKMAN: Have we ever tried this system before in committees?

The CHAIRMAN: No, I think the rationing of time has never been tried in the Canadian parliament but in view of all the circumstances I think we should make a try at it.

Mr. QUELCH: Personally I am prepared to give way any time.

Mr. JACKMAN: Mr. Quelch was good enough to suggest a moment ago that if anybody wanted to ask questions he would retreat for the time being. I think we must go on as we always have done and leave it to the good judgment of the various members.

Mr. BRADETTE: I believe your point was well taken. The Social Credit party has certain questions to put. They should exhaust them and then the other parties can come in. I believe that would be the best system.

Mr. BLACKMORE: We do not want to do that.

The CHAIRMAN: We must not lose sight of the facts, gentlemen. The facts are that this measure has been very strenuously opposed in the House by one group and one group only. I think the only opponents to the bill should first have the right to ask questions and advance their viewpoint. I do not think they will ask for an unreasonable length of time.

Mr. QUELCH: To be fair we should remember that there were other groups who said that they would not debate the matter in the House but that they wanted to ask questions in the committee.

The CHAIRMAN: That is why I think some time should be saved for these other groups.

Mr. COLDWELL: As a matter of fact, several questions have been asked and answered now that we are going to ask. Mr. Quelch has asked several questions that we were going to ask.

Mr. QUELCH: They are all embodied in two, really.

Mr. COLDWELL: Questions that we had in mind ourselves, and the probability is that if they go on to-morrow morning they will ask other questions that we intended to ask.

The CHAIRMAN: Are you prepared to go on or would you rather not go on?

Mr. QUELCH: I am quite prepared to go on now.

The CHAIRMAN: If you would prepare yourself and be ready to finish by the end of the sittings to-morrow morning it will oblige the committee. I think you cannot help but concede the fact that you have been given a very fair hearing.

Mr. QUELCH: I am not objecting at all. There will also be Mr. Blackmore but I can be through before the end of the next meeting. I am satisfied on that.

The CHAIRMAN: Will you carry on?

Mr. BRADETTE: There is one point taken by Mr. Coldwell. Mr. Coldwell, the same as a lot of members of the committee, was afraid of repetition which has always been the curse of the House of Commons and committees. If we can avoid that it will be helpful.

Mr. QUELCH: I shall not repeat.

Mr. BLACKMORE: What time do we propose to close to-night?

Mr. COLDWELL: The probability is that many of our questions will be answered, and we do not intend to ask any questions that have already been answered.

Mr. Low: Hear, hear; neither do we.

The CHAIRMAN: The committee has been very co-operative and I want to thank you. Is it your wish we should adjourn at 10.30 or sit until 11?

Mr. COLDWELL: Ten-thirty.

Mr. BRADETTE: Might I get the information from the witness about the gold exports?

The WITNESS: According to these figures Canada's exports of non-monetary gold, which is another way of saying current gold production, amounted in 1929 to \$37,000,000; in 1930, \$39,000,000, in 1931, \$57,000,000, in 1932, \$70,000,000, in 1933, \$82,000,000, and in 1934, \$114,000,000.

The CHAIRMAN: All right, Mr. Quelch.

Mr. QUELCH: I do not know what the agreement is. I have no right to reach any agreement. I am afraid I cannot be through before the end of another sitting, and possibly then Mr. Blackmore or Mr. Low would want to ask some questions.

Mr. BLACKMORE: I would rather like to see the other groups ask their questions. I want to hear what they have to say and I may want to ask some questions when they are through.

The CHAIRMAN: I do not want to appear to be unreasonable about it, but my point is this; it is only the Social Credit group in here that is opposed to the measure and in order to obviate repetitious questions I think that the opposition should have the opportunity first of asking their questions to the witnesses.

Mr. BLACKMORE: But the point is likely to occur that we might spend more time than we should do before we stop, and then when other parties or members put their questions some points might arise on which we would like to have a little further detail.

Mr. IRVINE: Suppose you take this view, that by to-morrow night at this time we should have investigated the whole question.

The CHAIRMAN: I should hope so.

Mr. IRVINE: Suppose you leave it at that and let things take their course until that time.

The CHAIRMAN: We have had a round table discussion on it. In the meantime, we will let Mr. Quelch carry on until 10.30.

By Mr. Quelch:

Q. First of all, I would like to go back to the statements which the witness may have made; my statement may have been wrong, and I think that his might also have been wrong. I said, obtain a credit from the fund; and you said, no, it would not be a credit, we would buy foreign exchange with our money; but is not national currency once it is outside of the country a debit against the nation; is it not really a debt against the nation when we buy from the fund?—A. I would think, and I believe I indicated at the time—if I did not I certainly had it in mind to do so—that in substance the purchase of foreign exchange from the fund is a credit transaction.

Q. Credit, yes.—A. But in form however, it is not a credit transaction.

Mr. QUELCH: Now, I want to go back and I want to refer to section 6, to article 6 on page 21; you referred to that in your evidence. Section 6—article 4, I beg your pardon; you remember you dealt with that. Perhaps I should read it;

if a member changes the par value of its currency despite the objections of the fund, in cases where the fund is entitled to object, the member

shall be ineligible to use the resources of the fund unless the fund otherwise determines; and if, after the expiration of a reasonable period, the difference between the member and the fund continues, the matter shall be subject to the provisions of article 15, section 2 (b).

When a nation withdraws it becomes subject to article 11; and article 11 is on page 29. First of all, I would like to ask why was article 11 embodied in the Act because it was not on the White plan, it is not in the Keynes plan and it is not in the Canadian plan; and that has caused a great deal of fear—I am not sure that is the right term—a great deal of fear in the minds of many people as to why that was included. Perhaps you would deal with article 11, because maybe I have a wrong understanding of it. From what I understand, when a nation withdraws then article 11 comes into operation; and if the reason for the withdrawal was as shown in section 6 of article 4, because it has devalued its currency beyond a point allowed by the fund then it seems to me that the members of the fund are prohibited from trading with that nation on that basis, that the country's currency was devaluated, at a devaluated rate; because you yourself said that the change in exchange rate did not merely affect the nation itself, it affected all nations; therefore, it would be affecting the business of all the members of the fund; and therefore would be contrary to the fund because they were trading in a currency that was not according to the rate laid down by the fund.

THE WITNESS: If I may deal first with the more incidental point you raised, why this article was included in the Bretton Woods document when it did not find a place in the joint statement of experts; that is true of this article, and it is also true of many other articles in the Bretton Woods agreement. If you would like I can run through them. Article 9, was also not included in the joint statement. Possibly that is not a very good one for me to take.

MR. QUELCH: I was going to ask you about that one next.

THE WITNESS: You are objecting to that article too. You have referred also to the article on capital transfers; they are not, as I recall it, included in the Joint Statement of Experts.

MR. QUELCH: They did not cause the fear that the article evidently did.

THE WITNESS: I am just replying—article XIII,—offices and depositories; article XV—withdrawal from membership; article XVI—emergency provisions; article XVII—amendments; article XVIII—interpretations; article XIX—explanation of terms; article XX—final provisions; none of these were included in the Joint Statement of Experts. The Joint Statement of Experts was a skeleton, a statement of principles, and it was elaborated in many directions at Bretton Woods, including these provisions on the relations with non-member countries. And now, addressing myself to the substance of Mr. Quelch's questions, why these provisions? and do they really mean what he thinks they mean—

MR. QUELCH: If they mean anything.

THE WITNESS: I think the answer to that question is, yes; and the answer to your other question is, no, that they do not mean what you think they mean. Here you are organizing a group of countries into an international monetary fund. These countries give certain undertakings to each other and to the fund regarding the maintenance of stable exchange rates, subject to change under certain conditions. These undertakings are given to each other and to the fund. The purpose of these undertakings is to prevent the countries from getting competitive advantage over each other in international trade, and in general to make for orderly trade relations among countries. Suppose that a country did not want to play the game, did not want to live by the spirit of these undertakings, and it established a special differential and a depreciated exchange rate

vis-a-vis a non-member country. Let us take Spain, for example, let us assume that Spain is a non-member country; and let us assume that a member country, Modania, does not want to play the game. She cannot consistently with her commitments depreciate her exchange rate on member countries, but if she establishes a depreciated exchange rate with Spain which is out of line with the cross-rate between the rate quoted for the peseta in other member countries on the one hand, and her own exchange rate on member countries, on the other hand, she will stimulate exports from herself to Spain, which exports would be re-exported from Spain and which would compete unfairly with the products of other member countries in the world's markets. Now, obviously, if you enter into a club of this sort you must include some provisions to make sure that the members of the club do not violate the conditions of membership through the back door. In other words, I might put it this way, the only intention of these provisions is to prevent a black market in member currencies from being established in non-member countries.

Let me take another example; let us assume that some given currency is rationed by the fund because it has become scarce. Suppose that a non-member country has a large supply of that currency, more than it needs, and tries to auction it off at premium prices because it knows that the rest of the world is hard up for that particular currency and persons in some of countries might be willing to pay this premium price, even though the country itself might not be willing to go back on the letter of their obligation. Now, the purpose of this provision is to prevent a black market of that sort from being operative. And, on your specific case that you asked, Mr. Quelch; would we be obliged if the British walked out of the fund because the fund did not agree on the depreciation of sterling from \$4 to \$3, would we be obliged as a result to cut off trade with the United Kingdom; I have not the slightest doubt in my mind that the answer to that question would be, no, we would not be obliged to.

Mr. QUELCH: But, in the example you raised, Spain, you would be; but though England itself would not be in exactly the same position as Spain or any member nation.

The WITNESS: No.

Mr. QUELCH: It would be the non-member nations, what if the nation were expelled. You used the term expelled in your brief, and if expelled it is a non-member nation.

The WITNESS: You see, Mr. Quelch, there is no obligation on the part of countries to maintain any given exchange rate with non-members. The only obligation is not to go through non-member countries to frustrate the purposes of the fund.

Mr. MACDONNELL: Mr. Chairman, it is 10.30. Would the witness like to stop now or go on?

The WITNESS: I would just as soon stop.

The CHAIRMAN: Then, gentlemen, we will adjourn until 11.30 o'clock in the morning. I will have copies of the bill for you then.

The committee adjourned at 10.30 o'clock p.m. to meet again to-morrow, December 12, 1945, at 11.30 a.m.

HOUSE OF COMMONS,

DECEMBER 12, 1945.

The Standing Committee on Banking and Commerce met this day at 11.30 o'clock a.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: We have a quorum, gentlemen. Would you carry on, Mr. Quelch?

Mr. LOUIS RASMINSKY, recalled.

By Mr. Quelch:

Q. Mr. Chairman, just before we adjourned last night we were discussing article XI. The witness had explained that if Spain, a non-member nation, had devalued her currency then under article XI other nations would not trade with that nation, and I suggested that if Great Britain were expelled as a result of section 6 of article IV, then it would also be a non-member and in exactly the same position as Spain, and would therefore be subject to the provisions of article XI. I would like you to explain whether or not that would be the case, and if not, why not?—A. Well, Mr. Quelch, I am afraid you completely misunderstood what I said last night. I certainly did not mean to say that if Spain, a non-member country devaluated its exchange others would not trade with Spain. What I said was that one of the purposes of article XI was to make sure that non-member countries did not run a black market with currencies of members, and therefore members gave the fund the undertaking stated in article XI, section 1, (i), that they would not engage in or permit any of their fiscal agencies to engage in any transactions with a non-member or with a person in the non-member's territory which would be contrary to the provisions of this agreement or the purposes of the fund.

There is not a word in that, neither is there a word in the whole of article XI that could possibly be construed as an undertaking to boycott any non-member, and so the same situation prevails with regard to a withdrawing member.

Q. You are aware of the fact that it has been interpreted that way by many?—A. I am not. The first time I heard it interpreted that way was your own interpretation. I have not seen any other.

Q. We quoted Paul Einzig to that effect, that it is not easy to explain just what article XI might mean; and I still do not quite understand what you mean by black market. You suggested at the start that if a nation had under valued its currency it would have an unfair advantage on other nations, that action would affect all of the nations; that is right, isn't it; in so far as trading with other nations is concerned?—A. That is right, if the member nation under valued its currency. What I said yesterday was that member nations gave undertakings to each other and to the fund not to engage in competitive depreciation and to maintain a stable system of exchange rate as among members. There is no undertaking in the fund with regard to the exchange rate of non-member countries. If you look at the purposes of the fund in article I. I am referring now to the bill, article I, on page 3; the purpose there is stated as being: "to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation." There is not an undertaking anywhere in this document to maintain any given exchange rate with a non-member country; and I do not think that either article I of section 3, or article XI, section 1 is really susceptible of that interpretation.

Q. Again, will you explain just what you mean by black market?—A. Let me take the case of a scarce currency. Let us say that the United States dollar has become scarce and that the fund is proceeding to ration United States

dollars. Let us take the case of the United Kingdom and say that the rate of sterling to the American dollar is four American dollars to the pound. Now, the rationing of scarce currency does not relieve the United Kingdom automatically of its obligation to maintain that fixed rate with the American dollar. Its transactions in American dollars are still supposed to be conducted at the rate of four dollars to the pound. Let us assume that someone in the United Kingdom is so anxious to obtain American dollars that he is willing to pay more than five shillings for the dollar, that he is willing to pay 7/6 for the dollar; he is anxious to obtain dollars for some purpose and he is not able to get them through his own exchange control because his own exchange control has limited its sales in dollars and is not supplying dollars for the purposes for which this individual wants to obtain them. Now let us suppose Spain, the country I took yesterday—not Spain as a country but somebody in Spain—has a supply of American dollars which is in excess of his own requirements of American dollars; and let us say that the person in Spain offers to sell these American dollars—which, remember, are at a par value of five shillings to the dollar—at a rate of 7/6 to the dollar. That is what I mean by a black market transaction. That is a transaction that would be inconsistent with the undertaking that the United Kingdom gave on entering the fund to maintain exchange stability with other members of the fund. Spain in that case, or the Spaniard in that case, is being used as an instrument for transactions that involve the currencies of two members of the fund to enable transactions to take place at rates that do not correspond to the par value of the currencies. And that is quite a different matter from the question of the exchange rate of the United Kingdom and Spain, a question which does not enter into the fund agreement at all. If the United Kingdom withdrew from the fund, having disagreed with the fund regarding the par value of her currency, she would be a non-member, and any obligation that members of the fund had as regards exchange stability would lapse since these obligations are merely obligations exchanged among members of the fund.

Q. I find it hard to distinguish just where a black market operation begins and ends. England is forced to withdraw on account of having devalued her currency, and having withdrawn becomes a non-member nation, and then in order to obtain the dollars still further devalued her currency; that in itself is not of necessity a black market operation.—A. On the part of England?

Q. Yes.—A. Not in the slightest degree.

Q. While on the part of nations selling to England they are selling above the rate above allowed by the fund, selling above the exchange rate set by the fund?—A. Now, perhaps we can have a meeting of minds on this, Mr. Quelch, do you mean that it would be contrary to the provisions of the fund?

Q. Yes.—A. For Canada to sell American dollars to England at a rate which, on the basis of the actual quotation for sterling in the United States, did not correspond to the Canadian-American dollar parity as determined for the fund. You are quite right in that. But trade between Canada and the United Kingdom would not consist of Canada selling United States dollar to the United Kingdom at such rates.

Q. It would to a certain extent, in so far as it related to multilateral trade, as the using of one nation's money to pay off your debit?—A. No, I do not think that is right, Mr. Quelch.

Q. If you do not trade on a straight bilateral basis then you are of necessity trading on a multilateral basis and in doing that you would be actually using the currency of another nation in trade; am I not correct on that?—A. Yes, in a sense you are.

Q. And then to that extent would it not be contrary of the purposes of the fund?—A. No, it would not really, Mr. Quelch. Let us take the case that you

have taken. The United Kingdom withdraws from the fund and it depreciates its exchange rate as far as it thinks appropriate. Now, Canada continues to trade with the United Kingdom on the basis of the new exchange rate which is established between Canada and the United Kingdom, but that trade results in Canada accumulating a surplus of sterling and Canada says to the United Kingdom we want to convert that surplus of sterling into American dollars. The United Kingdom has its own supply of American funds part of which it uses at the prevailing market price for sterling to redeem the surplus sterling for Canada. I see nothing whatever in the whole series of transactions which is in any sense a violation of any member's obligation to other member countries and which consequently could not take place under the provisions of this Act.

Q. It has caused a good deal of consternation, and again I would like to refer to Paul Einzig in support of that statement. He says: "Under article XI the board of international financiers is given powers to declare economic war on Great Britain should she devalue sterling against the board's wishes.

All the United Nations (including, let it be noted, the British Dominions) will have to undertake to boycott and blockade this country in such event."—A. I would like to record again that in my opinion that is completely inaccurate as an interpretation of article XI.

Mr. QUELCH: Mr. Chairman, I will not pursue that any further at the moment.

The CHAIRMAN: Mr. Quelch, some of the members of the committee have requested that you should speak louder.

Mr. QUELCH: I am sorry.

By Mr. Quelch:

Q. When the witness spoke yesterday he stated that in his opinion the Bretton Woods Act was not the gold standard. He also referred to the fact that the automatic feature of the gold standard would not operate to-day on account of the fact that the nations took certain action in order to prevent price levels falling, in order to prevent wages falling, and so on; on the other hand, although it is not the gold standard as we have known it in the past, would not the witness agree that it is a form of gold standard?—A. I agree with you that the question whether this is or is not the gold standard is one of the major points at issue in the appraisal of this proposal by various people, by most people, I would say.

The statement that this is the gold standard is based in part on the provision of article IV, section 1 (a) of the fund agreement, on page 5 of the bill, which reads as follows:

The par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944.

The first thing that I should like to do is to draw to the attention of the committee the words "as a common denominator," in the paragraph. "The par value of the currency of each member shall be expressed in terms of gold as a common denominator." In any document of this sort, when words are introduced which are not necessary to complete the sense of a previous statement, one naturally has to ask oneself why those words were introduced. What is the significance of the inclusion of these words "as a common denominator" after "gold"? The reason those words "as a common denominator" were introduced after "gold" into this clause was precisely to help people in my position to reply to people in Mr. Quelch's position, that this was in fact not the gold standard, and that gold along with United States dollars was used merely as

a measuring rod in which the values of the currencies of the various countries joining the fund could be expressed. I think it will be clear to members of the committee that some common measuring rod is necessary.

If we assume for purposes of this argument, at any rate, that one is in general desirous of having a stable system of exchange relationships, then obviously one has to start by defining what the relationship is among the various currencies that constitute that system. One way of doing that would be to express the value of each currency, not in terms of some common unit but in terms of all other currencies that are members of the system. That would be a conceivable thing to do. There were 44 nations represented at Bretton Woods. If you were to express the par value of each currency in terms of the other 43, my friends who are skilled in mathematics tell me that the number of expressions of par value that you would get would be 44 multiplied by 43 divided by 2, a calculation that works out at 946 par values. Surely we could get something simpler than that. You can get something simpler than 946 par values by taking some common unit of measurement. The common unit of measurement that has been taken in this case is gold or United States dollars.

By Mr. Fraser:

Q. May I interrupt there with a question?—A. Yes, surely.

Q. Why do you multiply by 44 there?—A. Each nation would express its par value with every other nation that was a member of the group, so that you would have 44 multiplied by 43. Is that not right?

Mr. FRASER: Yes. I see what you mean.

Mr. LOW: Permutations and combinations.

The WITNESS: Naturally Mr. Quelch will ask the question: but why in terms of gold or American dollars? Why not express those par values in some other term?

Mr. QUELCH: Price indexes, for instance.

The WITNESS: The answer to that question, if Mr. Quelch asks it, is that par values are expressed in terms of gold or American dollars because in fact most countries in the world—including the United Kingdom, including Canada, including France, Belgium, the Latin American countries—do carry their international reserves in that form. That is not a question of theory. It is a question of fact.

Mr. JACKMAN: Hear, hear.

The WITNESS: It is a fact that the countries of the world do carry their international monetary reserves in the form of gold or American dollars. I do not propose at this stage to go into the question of why they do. I content myself with the fact of the matter which is that they do. Well, what is more natural than that the common value that is chosen, in which countries should express the par value of their currencies, is the form in which the countries carry their international reserves?

I think, Mr. Chairman, that every one would agree that at the present time Canada is not on the gold standard. I do not think that you would dispute that assertion, Mr. Quelch—and I see that you do not. Yet at the present time the value of the Canadian dollar is officially expressed in terms of United States funds. It is also expressed in terms of sterling. Canada's adherence to this instrument will not change, or need not change, the form in which the value of the Canadian dollar is expressed. At the present time the Minister of Finance, acting under the authority of the Exchange Fund Act and the Foreign Exchange Control Order, has said that the value of the Canadian dollar is 90·1 American cents; in other words, our buying rate for United States dollars is fixed, subject

to change, at a 10 per cent premium on American funds and our selling rate is fixed at 10½ per cent premium on American funds. All that the Minister of Finance will have to do as a result of Canada's adherence to this measure will be what he has done since the 15th September, 1939; and surely it is impossible to contend that the fact of writing a communication to the International Monetary Fund and saying that the par value of the Canadian dollar is what it has been—if that is the decision that the Minister takes—since September 15, 1939, puts Canada back on the gold standard.

By Mr. Irvine:

Q. Is the unfavourable balance the sole factor determining the value of our currency in relation to that of the United States?—A. If you will excuse me, sir, may I defer answering that question, because though it is related it is not strictly in line with the course of argument that I was going to follow.

By Mr. Quelch:

Q. May I ask if you intend later on to define what the gold standard is?—A. Yes. I am coming to that now.

Mr. MACDONNELL: And to say whether before 1914 you thought it was a good instrument.

The WITNESS: Mr. Coldwell has asked me to say what I think the gold standard is. I think that the essence of the gold standard is that countries place exchange stability above other considerations, even considerations of domestic stability and domestic prosperity. I think that the essence of the gold standard is the primacy which is given to the concept of exchange stability as a determinant of economic policy. Under the gold standard, changes in exchange rates take place only in extreme circumstances, only when a country has exhausted all other means of defending its international position, has its back to the wall and is faced with no alternative but to go off the gold standard; and a change in the exchange rate and a departure from the gold standard is regarded as something that is in some sense shameful and iniquitous. That would be accepted doctrine and certainly not doctrine that is disputed by those who are most critical of the gold standard. If Mr. Quelch wishes, I think I can quote authorities that would be acceptable to him.

By Mr. Quelch:

Q. No. I do not think it would do any good to quote authorities because, after all, it is a question of reason that must end it finally.—A. Quite so.

By Mr. Coldwell:

Q. Are you going to tell us what you mean by exhausting all other means before going off the gold standard?—A. Yes, certainly. Under the theoretical operation of the gold standard, if a country suffered an adverse balance of payments, it would lose gold. The adverse balance of payments, of course, causes what you might call a primary contraction in the incomes of its exporters. I have stated that with the logic of the thing reversed. Exports fall and that has certain consequences. One is a loss in the country's gold reserves and another is the primary consequence of a contraction in the income of the exporters. The loss of reserves under the gold standard rules of the game is supposed to cause a multiple contraction of central bank credit. These rules of the game, so called, developed during a period when central banks were working to a fixed gold ratio—a situation which is, incidentally, not the case in Canada at the present time and will not be the case under this legislation—and the central bank having lost gold, its reserve ratio falls, and it must seek to protect its

reserve position. It does this, under this gold standard theory, by raising its discount rate, which tends to attract foreign funds to the market and support the exchange, and by selling securities to the money market. This contracts the cash base of the credit system and forces the commercial banks to pull in their horns, call loans in, sell securities, contract credit, with the deflationary consequences that one could expect from such action. Prices are supposed to fall, but in point of fact they do not fall evenly. Consequently, there are maladjustments in the price structure which lead to unemployment, and partly as a result of the fall in prices and partly as a result of the unemployment, there is general contraction of consumption, including the consumption of imported goods. On the other hand, the country is better able to compete in foreign export markets. It sells more abroad and the combination of those two factors tends to redress the deterioration in its foreign balance of payments. May I interrupt my exposition to ask whether Mr. Quelch would agree at this point that that is a fair statement of the operation of the gold standard to which the opponents of the gold standard most seriously object?

Mr. QUELCH: I think your definition was a fair one, and I think it helped to substantiate the claim that this is a form of gold standard.

The WITNESS: Then I will continue with the argument. I should like to add that what I have just said is, in my opinion, purely theoretical. I do not think in point of fact any gold standard ever did work in that way. I do not think that these adjustments did take place along the lines that I have indicated. What I have expounded is the textbook concept of the gold standard.

How does Bretton Woods differ from this? One difference is that it adds to the international reserves of countries. It increases the amount of adversity in their foreign balance of payments that countries can face without having to take such deflationary action as I previously indicated. But, of course, Mr. Quelch would be quite right in saying that is merely a time gaining device. If that were all then all that would mean would be that this was a gold standard made somewhat more elastic by the addition of \$8,800,000,000 to the world's international monetary reserves.

By Mr. Blackmore:

Q. Including the United States?—A. Including the United States, yes. However, that is not by any means all that this does mean. In addition, and this is the important point, what this Bretton Woods document does is to recognize adjustments in exchange rates as methods of meeting an adverse balance of payments, and that is the basic concept, Mr. Quelch, which is not present in the gold standard. In the gold standard you change your exchange rate only under the most extreme circumstances.

By Mr. Quelch:

Q. You are free to do it though, are you not?—A. You are free to do it, but the whole psychology or mythology, or whatever you want to call it, of the gold standard is that you are an outcast if you do depart from the gold standard. That country which allows itself to get into that position is certainly not out of the top drawer, and is one that other nations would be very careful in associating with. Instead of that you have in the Bretton Woods document provisions under which a country is free to change the initially fixed exchange rate by as much as 10 per cent after mere notification to the fund. That is, consultation is necessary in that case, too, but the fund has no right to object, and the fund has imposed on it the duty stated in article IV, section 5, paragraph (a), on page 6 of the bill, to concur in a proposed change which is in excess of 10 per cent if it is satisfied that the change is

necessary to correct a fundamental disequilibrium. As I pointed out yesterday, in making that determination, which is merely a determination of fact, the fund, as you will see from the last sentence of that paragraph, has no right to inquire into the domestic, social or political policies which gave rise to the necessity for the change. Here, as I say, there is a new concept introduced which is, in a sense, as Keynes has said, the antithesis of the gold standard concept. The gold standard concept is exchange stability above all. The concept which is introduced here is if it is necessary to correct a fundamental disequilibrium then adjustment of the exchange rate is the recognized technique. That is the main reason why I feel that this is not the gold standard which is criticized, the gold standard that people who object to the gold standard have in mind.

There is another difference, too, and I will refer to this only briefly because we went into it at some length last night. Under the gold standard the main burden of adjustment when there is a lack of balance in international payments is placed on the debtor country. I know Mr. Quelch has argued that too much of the burden of adjustment is placed on the debtor country in this agreement, but it is a fact that apart from the relatively moderate interest charges there are very few pressures in this document on debtor countries to correct any unbalance in their international payments whereas on the contrary there is a very drastic pressure in the form of the scarce currency provisions on creditor countries to correct a lack of adjustment in their balance of payments.

By Mr. Coldwell:

Q. Is that the main objection of the American Bankers Association to this stabilization fund?—A. The scarce currency provisions—no, sir. The main objection of the American Bankers Association—

Q. I do not want to interrupt your thought.—A. I have their report here, and if you like I will come back to it later on.

By Mr. Blackmore:

Q. Would the witness care to define fundamental disequilibrium?—A. May I come back to that, too, Mr. Blackmore? Under the gold standard—and this is another essential point of difference—there is a two-way convertibility between national currency and gold. Under the gold standard anyone holding national currency, let us say Canadian dollars, has the right to go to whoever it may be, the mint, or whoever is doing this on behalf of the government, and demand a certain amount of gold in exchange. That is one type of convertibility.

On the other hand, anyone having gold has the right to go to the mint and demand national money in exchange. That is a very essential feature in the operation of the gold standard. Under these proposals there is no two way convertibility. There is no right on the part of anyone holding national currency, whether it be Canadian dollars or pounds sterling, who is resident in Canada or in the United Kingdom, to go to our mint or theirs and demand gold in exchange.

What is retained is the other type of convertibility, that is to say, that gold continues to be used to settle international balances. This agreement does not demonetize gold. That is the only real place that gold holds in this agreement, that gold continues to be used to settle international balances, not as a regulator of domestic policy which is the real heart of the case against the gold standard, but gold continues to be used to settle international balances.

Now, it is a question that may be open for discussion whether that in itself is a good thing or not. Certainly it is a thing about which Canada as a gold producer, looking at the question from the point of view of its own national interest, would find it rather difficult to make any complaint.

An Hon. MEMBER: Hear, hear.

The WITNESS: This is a thing that the British Empire as a whole, which produces over half of the world's gold production, would find it difficult to complain about. To the British Empire as a whole this ability to convert gold into foreign currency as required meant that in 1938, for example, something over \$650,000,000 was available that would not otherwise have been available. If, in fact, this is not the gold standard except in the sense that gold can be used as a means of settling international balances of payments I think that those who criticize that remaining feature would have to demonstrate there is some easier way by which Canada can get \$200,000,000 worth of imports which are needed for the consumption of her people each year. And those who are interested in this from the point of view of the British Empire would have to demonstrate that there is some easier way by which the British Empire as a whole could get more than \$650,000,000 worth of imports which are needed for the consumption of their people.

By Mr. Quelch:

Q. As far as the last point I would say that as long as other nations are willing to give us \$35 worth of goods for an ounce of gold I certainly would not oppose it. I liked your definition of the gold standard. I forget the words but it was to the effect that it would be a condition where gold takes a priority over the rights of the people, or words to that effect. Perhaps I did not put it in your exact words.—A. That is not quite what I said, Mr. Quelch. What I said was, as I recall it, a system under which exchange stability was the primary objective of economic policy and would take precedence over domestic stability.

Q. I was not basing my claim that this is a form of gold standard upon article 4 because that only deals with par values of currencies. If under the Bretton Woods agreement a creditor nation was under compulsion to accept goods in payment for its exports I would look upon the gold provisions generally speaking as harmless but, of course, that is not the state of affairs in this Act. Under subsection 2 of 7 — —A. What page is that?

Mr. IRVINE: Is this the bill or the agreement?

Mr. QUELCH: This is the final Act. I am not dealing with the bill at all. It is page 25. It compels a creditor nation to buy gold from the fund when currency is scarce. I would not take any objection to that clause at all, but if we turn to section 4 of article 8, on page 26 (of the white paper) it reads:

- (a) Each member shall buy balances of its currency held by another member if the latter, in requesting the purchase, represents
- (i) that the balances to be bought have been recently acquired as a result of current transactions; or
 - (ii) that their conversion is needed for making payments for current transactions.

The buying member shall have the option to pay either in the currency of the member making the request or in gold.

In other words, that compels a nation to sell gold when its currency is held by another nation and it does not possess currency of that nation with which to pay; is that a fair statement?—A. No, it is not a complete one, Mr. Quelch. Would you read (b), (iv) and (v)?

By Mr. Quelch:

Q. "(iv) When the currency of the member requesting the purchase has been declared scarce under article VII, section 3 (a); or

(v) When the member requested to make the purchase is for any reason not entitled to buy currencies of other members from the fund for its own currency." And that means that if that nation was not in possession of the currency of the country—A. Then the obligation shall not apply.

Q. And then, if it is not in a position to—A. Then the obligation does apply.

Q. Does apply?—A. Yes.

Q. Let us assume that the nation that has to buy the currency is unable to obtain currency from the fund, then it does not apply?—A. That is exactly what it says.

Q. When a nation is unable to obtain currency from the fund, has exhausted its right and it has unbalanced its trade, it finds itself in a position where either it will have to meet its obligations in gold or by borrowing it cannot get credit balances. That is why I prefaced my remarks by saying that unless the creditor nation is obliged to accept payment for its exports with imports from other nations; and in this case then if the debtor nation having exhausted its rights in the fund and having an unbalanced trade, it would be in a position where it would either have to borrow or pay in gold. In other words, it would be in exactly the same position as though you were on the gold standard where the nation having an unfavourable balance of trade either had to pay in gold or borrow.—A. But, Mr. Quelch—

Q. That is why I say there is a similarity there, because when a debtor nation gets in a position when it cannot meet its obligations, where it cannot get the creditor nation to accept the payment in goods, the only way in which it can meet that obligation is by paying in gold or by borrowing. I do not think that anyone could argue that it is in the welfare of a nation for them to be forced to borrow; and therefore I claim that to that extent, to the extent to which it affects the welfare of the people, it is certainly not in the interest of people; certainly not when they have to borrow although they have goods with which to make payments on their debt; and that is the only reason why I claim it is in the form of a gold standard. As you said a little while ago, the object of making the creditor nations obliged to accept payments in goods is one of the main arguments on the Bretton Woods agreement.—A. Mr. Quelch, you have dealt with two rather separate points; the first is the point regarding section 4 (b). The particular technique covered by section 4 is not one with which Canada itself is concerned because we do not go in for these currency holding arrangements. What is contemplated here is that if two countries agree to extend credit to each other in the form of holding balances of each other's currencies that there should be a right of conversion into national currency, which right shall lapse under the conditions stated in paragraph (b). Now, among the conditions stated in paragraph (b) is that when the currency of the member requesting re-purchase has been declared scarce it has no right to ask for the conversion, redemption, of its holdings of the currency of the debtor country. Moreover, under (v), "when the member requested to make the purchase is for any reason not entitled to buy currencies of other members from the fund for its own currency the obligation lapses." In other words, this is an obligation to redeem that lapses when the member for one reason or another is not able to get currency required from the fund. And now, it simply is not the case to say that the country would then be obliged to borrow. The country has already borrowed, and the borrowing has taken the form of the creditor countries holdings of its currency. Now, the creditor country simply goes on holding that currency without having any rights under this agreement to have that currency converted, either into gold or into its own.

Now let us go to the second question, of the obligations and the commitments of all creditor countries. As I said yesterday—and I do not know whether it would be the desire of the members or the desire of the committee that I should again go over the ground that we went over last—I personally have a great deal of sympathy for the emphasis that you place on the responsibility of creditor countries, and I think it is important that these things should be said. But surely, Mr. Quelch, that has nothing to do with the gold standard. The creditor countries would have that responsibility under the gold standard, under the

Bretton Woods Act, under the silver standard, under the bimetallic standard and under the paper currency standard. The question of the responsibility of creditor countries to facilitate debtors who wish to make repayment to them has nothing whatever to do, as I see it, with the gold standard. One might even argue that under the gold standard, by being willing to buy gold creditor countries are facilitating the repayment of debt, because they do not impose any tariffs on gold and they stand willing to buy gold at a fixed price. That is the only connection that I see between these two things.

Q. Is it not true under this Act that the only commodity in the world to-day that a debtor nation can force a creditor nation to accept payment is in gold?—

A. That is—

Q. Then I would certainly say that this is a form of the gold standard.—

A. But you say that you have no objection to that. You said before that you would not criticize the provision of the plan which requires that creditor countries should buy gold from the fund. You said that as long as creditor countries are willing to buy the gold at \$35 worth of goods in exchange that was all right with you.

Q. No, no; it is one thing to say that if a nation is willing to do it, it is another thing to compel a nation. Let us say that the other nations actually want our gold and they place a value on our gold of \$35 an ounce; that they say we want your gold and we will give you \$35 an ounce for it. That is one thing. But to say to a nation, you must pay us in gold; that is a totally different thing. That is the position in which you are placing the debtor nations when they cannot pay in any other way.—A. No. I am saying to the debtor nation, you can pay us in gold if you have any gold. It seems to me that now you are criticizing this on the ground that it is not fair to the creditor nation. Whether it wants to or not it is obliged by this to buy gold at a fixed price.

Q. But our creditor nations, such as the United States for instance, have always been glad to buy gold in order to help the unemployment problem. The point is that the debtor nation is not able to sell its goods and does not want to go further into debt and can only meet its obligations if it has gold. I do not think it is any argument for you to say that it has already borrowed. Just because a nation has already borrowed is no reason why it should go on borrowing; I would say that that is all the more reason why it should stop borrowing. Therefore, the nation which finds itself in a position where it has an unfavourable balance of trade but has plenty of goods although it cannot get the creditor nation to accept them, then unless they want to plunge still further into debt they have to find gold with which to meet their obligations because gold is the only commodity in the world that other nations are compelled to take. That certainly puts gold in a preferred position over every other commodity in the world.—A. In the sense that gold is recognized as a method of meeting international balances.

Q. And to that extent it is a gold standard.—A. If you want to call it that, if you want to call that a gold standard I have no objection to you so calling it.

Q. And that is stating that one commodity shall be accepted by all nations in payment of balances, whether they want to or not they have to accept gold.—

A. I must say that I regard that as a feature of the gold standard which, as I say, is in Canada's interest and that of the other gold-producing countries, many of which are found within the British commonwealth of nations; but certainly not as a feature of the gold standard which has given rise to the criticism of the gold standard. The criticism of the gold standard which is heard in the United Kingdom is most decidedly on another principle, it is most decidedly not on the basis of the acceptability of gold as a method of meeting international commitments. You yourself said earlier this morning that if the nations were willing to accept gold from us at \$35 an ounce, or to give us \$35 worth of goods for it, you had no objection.

Q. I will say that again, certainly. But again I stress the fact that it is an entirely different thing for a nation to voluntarily say that it wants gold, and for a nation to be told that the only way in which you can pay your debt to us is in gold, we will not take any other form of payment. They are two entirely different things. Let me point out that the reason why the United States accumulated so much gold in the past was because they did not want goods, they demanded gold.—A. Well, Mr. Quelch, might I try to get a meeting of minds on this by putting this to you; would the debtor nations be any better off if the creditor nations refused to accept even gold?

Q. At least it would not put the gold-producing nations of the world in a position of definite preference over other nations.—A. I agree with you on that.

Q. That in the first instance I do not think is a very satisfactory way of trying to bring about equality and good-will among the nations of the world.—A. I agree with you, Mr. Quelch, that there is an unequal distribution of the resources of the world.

Q. But then would you say that the present price of gold is the real value of gold?—A. No, certainly not.

Q. The nations have given it a fictitious value.—A. Now, you are standing on different ground and—

Q. I still stick to my other ground as well.

Mr. DECHENE: Mr. Chairman, surely the honourable gentleman should have an opportunity of completing his answer. I think some of the rest of us are entitled to hear what he has to say.

The WITNESS: I find this is a most useful method of carrying on a discussion.

Mr. DECHENE: I think Mr. Quelch should let him finish up his argument. You have not finished it; we do not know what it is all about.

The CHAIRMAN: Yes, there are other members on the committee.

Mr. COLDWELL: Would Mr. Rasminsky just pursue that line of thought? I think it would be very interesting to the committee if he were to do so.

Mr. QUELCH: I said that Mr. Rasminsky was misconstruing my argument, that he is starting off with a wrong premise, and I thought it would be just as well to have him get off on the right foot.

Mr. COLDWELL: Well then, let us pursue his line of thought to a conclusion.

The CHAIRMAN: Yes, the rights should be reciprocal.

Mr. QUELCH: Yes, I would like him to pursue his line of thought; that is why I asked him to correct me when I gave my definition of gold. I will let it rest at that. My main complaint is that it gives gold a position where it is the only commodity in the world that a nation can force another nation to accept payment in. A nation may have an unfavourable balance of trade. It may have plenty of goods with which to meet its obligations, but unless it can obtain gold to pay that creditor nation, it is forced into debt. That is my main objection against this.

Mr. BRADETTE: I should like to ask Mr. Quelch what he will have in place of gold. Will he have cattle or sheep?

Mr. QUELCH: For what?

Mr. BRADETTE: To replace gold.

Mr. QUELCH: Goods. I would say that I would take the price index system as advocated by the London Chamber of Commerce.

Mr. COLDWELL: Mr. Quelch has stated his main objection, and I think it is one that is in the minds of many of us. I should like to ask Mr. Rasminsky to reply to that main objection, because it is a question which is in my mind as well as in the minds of many others in the committee.

Mr. JACKMAN: Hear, hear.

Mr. COLDWELL: Why is gold selected?

The CHAIRMAN: The latter point has already been pretty well covered, of course. As to the other point, if you would care to comment on that, Mr. Rasminsky, all right.

Mr. STEWART: Mr. Chairman, is it an indictment so much of Bretton Woods or is it an indictment of the stupidity of nations which insist on taking gold instead of goods? It is not an indictment of Bretton Woods.

Mr. HARKNESS: Mr. Chairman, would the members speak a little louder, please.

The CHAIRMAN: Would you please ask your question, Mr. Coldwell?

Mr. QUELCH: I will leave it at that.

Mr. COLDWELL: Mr. Quelch has stated his main objection to this.

The CHAIRMAN: A little louder please.

Mr. COLDWELL: Mr. Quelch has stated his main objection to this agreement, which is that a creditor nation is forced to accept gold where a debtor may have many goods with which to pay the debt. The creditor nation is not compelled, under this agreement, to take anything other than gold. If I might just conclude with that, I should like to have Mr. Rasminsky's comment. But it seems to me that the ground Mr. Quelch is taking—and that is something I should like to see—is that there should be an international organization which has the power to plan the exchange of goods in the world on a different basis, and it of course involves the whole question of the individual sovereignty of nations. If you are going to compel nations to do something, you must have a sovereign power to make the compulsion. We have not got that. I should like to hear him comment on that.

The CHAIRMAN: The question arises, is it reasonable to demand that nations should accept goods which they cannot use?

Mr. QUELCH: Quite, as long as you have individual sovereignty.

The CHAIRMAN: Take an absurd case. Suppose one little nation decided that it was going in for nylons. Mr. Quelch, developing your argument to the logical conclusion, you would make all nations accept 20 times as many nylons as the women could wear.

Mr. QUELCH: The other nations would have to accept nylons whether they wanted to or not—

Mr. BLACKMORE: Or cancel the debt.

The CHAIRMAN: Would you care to comment on that, Mr. Rasminsky?

The WITNESS: On which?

The CHAIRMAN: On this last point.

Mr. FRASER: Leave the nylons alone.

Mr. BRADDETTE: Leave them to the girls.

Mr. LOW: They will take care of them.

By Mr. Coldwell:

Q. This is an agreement among sovereign nations?—A. Yes.

Q. There is no impingement on the sovereignty of nations under this agreement?—A. I do not think so.

Q. Any more than there is under the United Nations Charter?—A. I do not think so.

Mr. COLDWELL: What power would there be to force them to take anything other than that which they wanted to take? And the nations are now willing to take gold but not anything else.

Mr. IRVING: Is it not possible, in the case that Mr. Quelch raises, that such a nation might well take payment in goods and its people could consume them very well, and yet it deliberately decides to take it in gold? Is that not the situation sometimes?

Mr. JACKMAN: That is right.

The WITNESS: I do not think there have been many cases of countries, as an act of deliberation, taking gold. There have been any number of cases of countries which have carried out commercial policies and domestic economic policies which have resulted in their having a surplus in their balance of payments which they took in the form of gold rather than evening out that balance of payment by taking more imports. But except in the case of countries that have had no gold reserves and have set out to build up a small gold reserve, I think there must be very few cases where a deliberate choice has been made between imports of goods and imports of gold. I think it is really a consequential factor rather than a determining factor.

By Mr. Coldwell:

Q. Is there not the hope that at this conference which is projected for March, I think it is, or some time in the summer, the nations will discuss their trading relationships, and the tariff arrangements and so on in the world, and may to some extent meet the objections that Mr. Quelch has—and which some of the rest of us feel, I may say—to this agreement.—A. Well, yes. I was trying to avoid going over the same ground that I went over last night. But if you wish me to go over that ground again, I am perfectly prepared to do so.

Mr. QUELCH: No, not at all.

Mr. BLACKMORE: It will do no harm. You did it very well.

The WITNESS: I might not do it as well this time. I think I had better let it stand on the record as it is.

Mr. BRADETTE: Mr. Chairman, I believe we are missing the pivotal point in this. When you speak of a nation being on gold, that does not mean bullion. What is meant is only the gold that goes into the monetary system by the yardstick propounded by Bretton Woods.

Mr. QUELCH: Oh, no.

Mr. BRADETTE: That is the meaning, unless I am wrong on that point, and I do not believe I am.

Mr. COLDWELL: Will the witness answer that?

The WITNESS: I would not say that the member is wrong. I would merely say that my own view of it does not coincide with his. Certainly when I referred to gold being used to settle international balances, or being available for that purpose, I had in mind the physical gold and not merely the standard of measurement.

By Mr. Bradette:

Q. Article IV, section 1 (a) reads: "The par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944".—A. Yes. But I would ask you to look at the scarce currency article. Article VII, section 2, reads: "The fund may, if it deems such action appropriate to replenish its holdings of any member's currency, take either or both of the following steps:

(ii) require the member to sell its currency to the fund for gold."

I did not point out, because to my mind it would have been purely a debating point, in reply to Mr. Quelch that the obligation to accept gold in the settle-

ment of international transactions under this agreement is merely an obligation to accept it from the fund. There is nowhere in this agreement any general obligation on the part of members to recognize the continued use of gold.

By Mr. Quelch:

Q. A member could buy currency from the fund with gold.—A. Yes, he could.

Q. So it is the same thing. It just passes through the fund.—A. Yes. All one can say is that, in the relationship between the fund and the member, national currency is convertible into gold and gold is convertible into national currency.

Q. So that, indirectly, you can say that a nation can be compelled to accept gold via the fund?—A. That is right. But so far as legal obligations are concerned, they are confined to the relationship of members with the fund. As I say, I do not want to make the purely debating point that there is no more general obligation than that to accept gold.

Mr. QUELCH: Those are the main questions I wanted to ask, Mr. Chairman.
The CHAIRMAN: Yes.

By Mr. Fulton:

Q. Mr. Chairman, there is one explanation which would help me in dealing with the point Mr. Quelch has raised and it is this. He is objecting, as I understand it, to the fact that a debtor nation could be forced to pay in gold. But there is an alternative under section 4, article VIII which reads: "The buying member shall have the option to pay either in the currency of the member making the request or in gold." I realize that there may be an alternative expressed in words which may not exist in fact, and it would help me if you would explain how real that alternative is. In other words, is there any chance for a member in the position of a nation that Mr. Quelch has put forward, of making payment in the currency of the creditor nation to the transaction and the trade may go through by means of this fund? How real is that alternative?—A. I think that Mr. Quelch did not accept the explanation that, so far as the obligation under article VIII, section 4 is concerned, if a member is not able to discharge that obligation by drawing on the fund, by purchasing the exchange from the fund, the obligation under that article lapses.

Mr. QUELCH: Yes. I was leading up to the other point.

The WITNESS: Mr. Quelch has accepted that.

Mr. QUELCH: Yes.

The WITNESS: Your question is, what can happen then? Then you have a situation where a country is in debt to another and is not able to use the instrumentality of the fund to discharge that indebtedness.

Mr. QUELCH: That is why I used that example, to show what the condition would be as a result of it.

The WITNESS: Yes. The only answer that one can give to your question is that, in the final analysis, that debt can only be discharged through the movement of goods. I am assuming now that the debtor country has not any independent monetary reserves of its own; and there is the question that Mr. Quelch has insisted on, of the responsibility of the creditor to facilitate the movement of goods that will enable the debtor to discharge his debt. I have indicated to-day, I think—and at some length last night—that I agree with Mr. Quelch that in the final analysis the creditor country must pursue policies that will enable the debtor to discharge its indebtedness. There

are also responsibilities on the debtor country not to borrow beyond its real capacity to pay, and I think that Mr. Quelch would agree with that too; at least, I hope he would.

Mr. QUELCH: Yes.

The CHAIRMAN: Mr. Dechene, you had a question you wanted to ask, did you not?

Mr. DECHENE: I appreciate the opportunity, Mr. Chairman. What I wished to ask Mr. Rasminsky is more or less in the nature of an opinion from a man whom I consider to be in a better position possibly to answer it than any one else I know. He is unquestionably one of the best qualified men I have heard in this line. His experience with the League of Nations and in London has placed him in a position to make up his mind and form a judgment.

By Mr. Dechene:

Q. The only thing that bothers me in this whole question is this, Mr. Rasminsky. Do you believe, in the light of your experience—and I think you mentioned it yesterday to some extent—that you have found in this world, during and since the war we have just fought, a far better spirit amongst the nations; that they have realized that something worth while must be done to agree together—for instance, for all the nations to grow the food that they can best produce and sell the surplus. In the case of Canada that would be wheat and hogs. I am thinking of the organizations that have been formed such as the agriculture and food organization for the distribution of food all over the world. Do you believe that, generally speaking, these nations that met at Bretton Woods, and on food, showed that such a spirit of understanding is prevailing; and is your opinion that the situation is not as we have been told it is, that agreements of this kind may lead to war, but rather that they are specifically for the purpose of avoiding any future war? Is that the opinion that a man with your qualifications and experience has formed of this understanding at Bretton Woods? That is the question I wish to ask. I hope I have been clear.—A. I wish I could reply to that question as adequately as you have put it. I do think that the fact that the experts of 44 countries meeting at Bretton Woods were able to agree on the document of this sort is a very remarkable manifestation of the determination of everyone to avoid some of the most serious mistakes of the past, and a reflection of the new spirit that you have referred to. It was not easy to reach this agreement. The backgrounds, the points of view, in some cases even the prejudices of the participants, were quite different. There was no lack of point of view that Mr. Quelch and his friends would have found very sympathetic at the conference. If one considers, for example, the composition of the British delegation headed by Lord Keynes, whom no one could conceivably accuse of being an advocate of the gold standard or a leader of monetary orthodoxy, which included people like Professor Dennis Robertson of Cambridge University and others meeting with American representatives, European representatives, ourselves, people from the near east and the far east, the fact that they were able to agree on a document of this sort—

By Mr. Coldwell:

Q. Even Communistic Russia?—A. Even Russia. I do not know why I forgot to mention Russia.

By Mr. Quelch:

Q. Could you explain about Russia, because Russia stayed out—

The CHAIRMAN: Let the witness finish.

THE WITNESS: I think the fact they were able to agree on a document of this sort with provisions that are as complicated and technical as these does indicate that there was a general determination to avoid at least the error that the minister referred to in closing his statement of too little and too late this time. There was no thought on the part of anyone that this was the new world that had been created at Bretton Woods, and that we now would have a new heaven and a new earth. No one thought that in the slightest degree. What was felt was that this was the way that progress had to be made, that you had to deal with the various problems as best you could and satisfy yourself that if you were not getting to your final goal in the first step at least you were moving in the right direction. So I would say in reply to your question that the answer is yes, that I do think that the fact that it was possible to get agreement on this document with all its imperfections is a sign that there has been some change in the spirit and approach to these problems.

MR. DECHENE: Thank you. It is an advancement and a betterment.

By Mr. Bradette:

Q. It is not very likely that a debtor nation with a big surplus of exportable goods could be in default with this agreement? I do not see how they could be if they have a lot of exportable goods?—A. I am afraid I did not follow your question. Did you refer to a debtor nation or a creditor nation?

Q. We are dealing with things that have not happened yet, things that will happen in the future, but I say, it is highly improbable that a debtor country could find itself in default with this agreement if they have a lot of exportable goods in their possession because there is always some demand for exportable goods in the world.

MR. QUELCH: How is he going to pay for them?

MR. BRADETTE: The creditor nation must find a way to buy them.

THE WITNESS: I am afraid there is a good deal in recent economic history to justify some apprehension that debtor nations might not be able to dispose on the world market of their exportable surpluses at prices that their producers would find remunerative. I am afraid there is no guarantee in the existence of exportable goods that general conditions will be such, or that the policies of the creditor countries will be such, that the debtors can, in fact, export at remunerative prices.

MR. COLDWELL: I sensed that Mr. Quelch was going to ask you what the present position of Russia is in regard to this agreement.

MR. QUELCH: I mentioned that at first Russia would not participate. She sat in at the London conference and sat in at the Washington conference and then finally came in.

THE WITNESS: Why do you say she would not participate?.

By Mr. Quelch:

Q. I understood she just sat in first of all. At least, the newspapers carried the report that she just sat in listening but not actually participating at the London conference.

THE CHAIRMAN: Your question is what is Russia's present position in regard to Bretton Woods?

MR. QUELCH: Yes, and what brought about the change in attitude on the part of Russia.

The WITNESS: I am afraid I cannot answer either question. I was not aware that Russia had refused to participate in any conference on these matters before Bretton Woods. Russia did participate and participated quite actively at Bretton Woods.

Q. I am aware of that.—A. On the second question I do not know what the present position is as regards Russia.

By Mr. Coldwell:

Q. Has it not been your experience that if Russia entered a conference and committed herself to certain conclusions that she has made the boast she has always carried those conclusions into effect? Is it not a fact that she makes that boast?—A. I think that is right, but no government was committed to anything as a result of Bretton Woods. It would be perfectly open to Russia as it would be perfectly open to the Canadian government—

Q. I understand that, but the argument she has usually used when discussing other conferences and participating in other conferences is that once governments or representatives of governments have come to certain conclusions it is more or less obligatory upon the other participants to carry out those conclusions, and she says she is always willing to do so. That is one of the arguments that was made at the foreign ministers' conference. Of course, Stalin is at the highest level but that was one of the arguments used in September at the foreign ministers' conference against any changes and at San Francisco much the same argument in some respects was used. I wondered what the present position of Russia was.

The CHAIRMAN: It is 1.00 o'clock. From conversation with members of the committee I would anticipate that the few questions that are left in regard to the fund could perhaps be completed within half or three quarters of an hour after we convene at 4.00 o'clock this afternoon. If it is your wish Mr. Rasminsky will then make his presentation in regard to the bank.

Mr. COLDWELL: I should like to say that we had a number of questions we were going to ask but, as a matter of fact, most of them have been asked already and the answers have been given. I do not propose just for the sake of asking questions to ask those questions over again, so there will be no repetition.

The CHAIRMAN: Mr. Coldwell moves that we adjourn until 4.00 o'clock. The committee adjourned at 1.00 p.m. to meet again at 4.00 o'clock p.m.

AFTERNOON SESSION

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

The CHAIRMAN: Order, gentlemen; shall we resume?

By Mr. Macdonnell:

Q. I wanted to ask Mr. Rasminsky a question which rises out of a question which I asked last night. I asked then if Mr. Rasminsky would give us an idea as to what part he felt that the amount of money available to ourselves, for example, from the fund; if we needed it, would play in overcoming a situation of deflation in our own country, and he answered it partly with reference to our trade history with the United States and with Britain, and I wanted just to ask this arising out of that question; particularly in view of the fact that there will be a transitional period which perhaps might affect our capacity to acquire sterling balances, if we continue to have large balances against us in the United States will we have a difficult transfer problem with the United States?

May we reasonably expect we may have a three-cornered situation arising to help us?—A. That is a very important question. I take it that the question is as to whether before the transitional period in the fund has come to an end—

Q. Particularly that, yes.—A. —particularly whether during that period we would be able to get all the assistance if need be from the fund in meeting adverse balances that we might have with the United States.

Q. As to whether we might have to expect, not having the assistance of sterling during that period, particularly if an adverse balance developed?—A. You mean, if an unfavourable balance arises?

Mr. JACKMAN: How would a favourable balance in favour of Canada arise in the form of currency if not through sterling?

The WITNESS: I take it that Mr. Macdonnell's question is really this, that he is assuming that during the next few years we shall continue to have an adverse balance with the United States and that, as a result of our transactions with the United Kingdom and with other countries to whom we are extending credit, we do not have receipts of United States dollars adequate to cover that adverse balance with the United States. In those circumstances, will the fund be of assistance to us; is that what you have in mind?

Mr. MACDONNELL: That is it, exactly.

The WITNESS: I would say in those circumstances, quite definitely yes, that the fund will be of assistance to us. We would be in a position to go to the fund and purchase United States dollars to meet current requirements in the United States at the overall rate of \$300,000,000 without operation of the waiver clause, and at an annual rate of \$75,000,000 without operation of the waiver clause. Going back to the point that Mr. Macdonnell was on last night, whether that degree of assistance is important to us—I would put that this way, Mr. Macdonnell, that at the beginning of the war when it became necessary to establish foreign exchange control in Canada, the gold and U.S. dollar reserves held by the Bank of Canada, that is our official gold and U.S. dollar reserves, amounted to a figure in the general neighbourhood of \$300,000,000. That was the amount which at that time was regarded evidently as a safe, or as an appropriate reserve for Canada to hold in that form. And now, that perhaps gives a focal point against which you can measure the significance of a figure, the figure which I quoted. It is a figure which before the war would have been regarded as an important element in our international monetary reserves. I suppose if you were to ask me if that would be large enough to meet an adverse balance with the United States that I would have to try to answer the question by asking, how adverse is our balance likely to be? And that is a very difficult question to answer, because it involves assumptions regarding the level of incomes in this country and also assumptions regarding the level of income and employment in the United States. I think I would only be making a guess which would be of no use to the committee, so I will confine myself to saying this; that the degree of assistance given to us by that \$300,000,000, and by the rate of \$75,000,000 a year, is not a negligible degree of assistance, it is something, I think, that is worth while for us to have from the foreign exchange point of view.

By Mr. Quelch:

Q. May I ask a question?—A. Certainly.

Q. Actually, under the fund, you expect to be a creditor nation rather than a debtor nation?—A. I think that the likelihood is that in the period we are talking about Canada will have a surplus on her current account balance of payment.

By Mr. Macdonnell:

Q. Would you care to expand that a little for us? I was very much interested hearing you say that last night.—A. Why I believe Canada will have a surplus?

Q. Yes.—A. We are thinking of the few years ahead. I suppose that a nation like ourselves, with all the resources Canada has, and a great productive capacity in the things with respect to which the world is very short and wants very badly, is in a better position than any other nation.

By Mr. Michaud:

Q. Barring Russia?—A. Well, that question is really a correction, I have to correct what I said; when I referred to productive capacity, I really should have said surplus productive capacity, in excess of our own requirements.

By Mr. Macdonnell:

Q. I realize fully it is a question of markets, and I was wondering whether or not you would care to say something about that?—A. On the question of markets; the demand is there, the demand on the part of foreign countries for reconstruction purposes, to rehabilitate their economies, and re-establish their standard of living. The problem is a problem of payments. Parliament already at the last session recognized the existence of that problem through voting an appropriation of \$100,000,000 under the Exports Credit Act, and at this session has raised that amount to \$750,000,000. And if parliament approves this proposal then an additional potential credit to finance Canadian exports amounting to the Canadian contribution to the fund will have been made available.

Now, it would not be anticipated that the Canadian dollars put into the fund would be drawn out all at once. In other words, I would not think it would be used to meet long-termed capital requirements or long-termed import requirements of foreign countries, because that is not the purpose of the fund. If the fund operates successfully in conjunction with the international investment bank, then there should be the inherent tendency for the fund's holdings of the currencies of the various member countries not to change too greatly over a long period of time. There should not be a tendency for the currency of the creditor countries to be gradually and continuously seeping out of the fund. But it has to be recognized that the conditions at the time the fund will begin to operate are most unusual. Countries are likely to have recourse to the fund, initially, for purposes other than meeting purely temporary fluctuations in balances of payments, so that there may be in fact some tendency along the lines that I have just indicated. The extent of that tendency I think it is impossible to measure, to estimate; but to whatever extent that tendency does operate that will represent a further addition to the amount of credit that Canada will have extended to foreign countries to finance their purchases here. And then, finally, there is the more limited amount of credit that would be made available to foreign countries in the operation of the international investment bank which the committee will be discussing later.

MR. MACDONNELL: Thank you.

By Mr. Stewart:

Q. From what the witness has said it would appear that we should not be going back to any gold standard at all, but I was just wondering whether it is possible that we may be hooked upon the talons of the double eagle; in other words, would Bretton Woods make us more susceptible to the influence of American economy than would be the case otherwise?—A. Shall I deal with that question before the others, Mr. Chairman? That is a very funda-

mental question, and one to which those who have been concerned with this proposal have naturally given a great deal of thought. I think in some ways it is like the questions that have been raised regarding whether this is or is not an adherence to the gold standard. This is one of the most searching questions that could be raised in connection with these proposals. The question is whether adherence to the Bretton Woods proposals increases our dependence on the United States.

I think that the short answer to that question is no, that that is not the case. To demonstrate that or to indicate my reasons for thinking that, let me begin by asking the question, how is a depression transmitted from one country to another? That is what we are concerned about. Thinking of our relations with the United States, and assuming that we will control capital movements to the United States or in general, the main method by which a depression would be transmitted to Canada would be through a decline in the volume and value of our exports to the United States consequent upon a reduction in demand in that country, that reduction in demand being in turn consequent on, or perhaps more accurately the manifestation of, a depressed industrial condition in the United States. We lose export markets because the United States is depressed. Our foreign exchange income, our United States dollar income, is reduced—and when I say our United States dollar income is reduced, I am thinking now of the income of the country—and the Canadian dollar incomes of the producers of newsprint and cattle and the other things that one has in mind, will fall. Well, now, what is a country like Canada to do in those circumstances? I argued this morning that under the theoretical operation of the gold standard a system which I do not think has, in fact, been in force in Canada for more than a very short period, a period to be measured in months, since the end of the last war—we would take steps to correct that situation by reducing domestic incomes, and those are the deflationary consequences that you fear. Now, what would happen under Bretton Woods? The reduction of domestic incomes that would be the consequence of this theoretical operation of the gold standard arises out of the importance which is attributed by national policy to the maintenance of a fixed exchange rate. If national policy is to retain the fixed exchange rate because we felt that the trouble is a temporary one, that there will soon be recovery in the United States, that our foreign exchange income will rise and therefore we do not want to make what might be a disturbing judgment of that sort—under the Bretton Woods proposals, if that is our policy, we are better able to carry it out because we have more sail to give to the wind in the form of international reserves in addition to our own reserves. We have our ability to acquire additional reserves by purchasing foreign exchange from the fund. So that under the Bretton Woods proposals we can defer the necessity of doing anything such as exchange depreciation or import restriction or deflation for a longer period of time. This is the leeway that I spoke of yesterday, Mr. Quelch, a sort of recurring leeway; I did not have in mind a leeway that we get once and once only at the beginning of the transitional period. So we do get in that leeway the time in which to make a better judgment as to the underlying factors in the situation.

If after using that leeway, the situation is such that we have come to the conclusion that an appropriate thing for us to do is to adjust our exchange rate, to depreciate the dollar, then as I indicated yesterday, we have as a result of adherence to Bretton Woods, lost no bit of our ability to do that, with this single qualification, that we have undertaken not to do that except after consultation with the fund and we have undertaken not to do it unless that change is necessary to correct a fundamental disequilibrium. The situation I have described of unbalance in our international accounts, accompanied by domestic unemployment at home or the threat of domestic unemployment at home certainly is, in my opinion, a fundamental disequilibrium within the meaning of the Act.

Another thing that we get under Bretton Woods is what I referred to yesterday as a forum, a place at which we, and other countries who would be similarly affected by a depression in the United States, can make known the impact of the American policies that are getting us into difficulties, I said yesterday that I thought not enough attention had been devoted to this, the importance of this forum aspect; and I felt after the meeting was over that, even in the time that I devoted to it yesterday, that I did not really indicate adequately the importance of it. Consider what the situation was, let us say in 1930 or 1931, after the depression had started with particular severity in the United States. The depression resulted in the loss of international reserves by a good many countries. Those countries, faced with depression at home, were forced to take measures to protect their position—measures such as tariffs, exchange controls and quotas—and those measures in turn resulted in what one could call the fractionalization, the breaking up of the world economic system. The significant thing is that if there had been a desire, and machinery by which that desire could be accomplished, for countries to meet that depression not through restrictive contractionist action of that sort but through general expansionary action, then you would not have had the development of these beggar-my-neighbour policies. You did not have an adequate forum in the inter-war period, and that is another thing that Bretton Woods gives. It provides some hope, at any rate, that the impact of a depression—we have been talking about the United States, but we could say the same of any country—will be lessened on other countries.

If this outline has been too sanguine, too optimistic, and if the depression in the United States turns out to be a serious and prolonged depression, then what is the situation under Bretton Woods? Under Bretton Woods, as I have indicated, we have not lost our right to try to make an adjustment to that situation through currency adjustments. We have in addition something that we have not had before, namely, the right on the part of all countries to try to make adjustment to that situation through the scarce currency provisions of the plan. In the past when the supply of dollars fell as a result of depression in the United States and as a result of the sudden cessation of capital exports, of course countries had to make adjustment to that, and the adjustments that they made to it were these measures that we call economic warfare. Now, under the scarce currency provisions, you will have a situation under which countries whose currencies are not scarce can go on trading with each other without being obliged, on account of the decline in the supply of one currency, to restrict their trade generally under the operation of the most-favoured-nation clause in their commercial treaties.

I think the only thing that I want to add to that is that, if there is a serious depression in the United States or any other important industrial country, no international monetary organization will be able to cope with it, even the most perfect one; that the only thing capable of coping with that is vigorous government action, and Bretton Woods is certainly not a substitute for vigorous government action in the domestic field. On the contrary, Bretton Woods can operate with real success only if countries, and particularly the large industrial countries, do carry out domestic policies that are aimed and successfully aimed at high levels of employment and income.

By Mr. Coldwell:

Q. I may take it from your remarks, Mr. Rasminsky, that in your opinion, with the fund and with the prospect of discussion and consultation, the world will be better off with the Bretton Woods agreement than without it?—A. Yes. Quite definitely.

Q. That is summarizing what you have said?—A. Yes.

Q. I can see the influence that something happening in the United States might have upon the world, but that "something" may happen without Bretton Woods; and with Bretton Woods you have something which may provide you with a mitigation?—A. That is perfectly right, Mr. Coldwell. No country in the world, no matter what its social and monetary philosophy may be, can contract out of American influence.

Q. That is what I understand.—A. Nothing that we do or say or think is going to change the fact that the United States is the largest industrial country in the world; and for any one who is afraid of American influence, the only logical proposal to make would be to cut off our trade entirely with the United States, to export nothing to the United States, for fear that our exports to the United States will fall some day and that that may get us into difficulty at home. Even that, of course, would not deal with the situation. To deal with it completely, we would have to decide to export nothing to any country that does export anything to the United States, because its situation and its capacity to take our exports will be affected by conditions in the United States. Surely no one is going to make so absurd a proposal as that, that we should cut off our trade entirely with the United States.

The CHAIRMAN: Mr. Coldwell asked a question this morning which was not answered. Would you care to answer now the question as to the main objections of the United States bankers to Bretton Woods?

Mr. COLDWELL: The American Bankers' Association.

The CHAIRMAN: Is the committee willing that we should go on with the bank?

Mr. BRADETTE: May I ask a question?

The CHAIRMAN: I believe Mr. Coldwell's question is now before the witness.

The WITNESS: In general, as I understand them, these are some of the views which have been expressed—not recently because so far as I can make out now that it has been adopted by Congress there has been no adverse criticism from those quarters. In the first place it is alleged in some quarters that the fund proposals put the cart before the horse, that they start at the wrong end, that they try to deal with basic economic problems through monetary methods. In the view of these, the basic economic problems to be dealt with are unbalanced budgets, too high a level of costs in countries, and also restrictions on the international movement of goods such as excessive tariffs and quotas.

By Mr. Blackmore:

Q. Would it be correct to say adverse trade balances instead of that last one?—A. No, I do not think it would.

Q. Why not?—A. Do you mean would it be a correct statement of the fact or would it be a correct statement of the criticism these groups are making?

Mr. COLDWELL: I am asking about the criticism.

The WITNESS: This line of criticism is that if countries get their own houses in order by balancing their budgets and by cutting down their costs they would be able to balance their international accounts without having recourse to financial assistance of this sort.

By Mr. Coldwell:

Q. Cutting costs, of course, includes reducing wages?—A. It would include reducing wages.

Mr. BLACKMORE: First of all.

Mr. LOW: General deflation.

The WITNESS: You understand I am not advocating this.

Mr. BLACKMORE: I am following quite eagerly.

Mr. JACKMAN: Even executives' salaries would have to be reduced.

Mr. COLDWELL: Sure they would.

The CHAIRMAN: Are there any further questions before we go on with the bank?

Mr. BLACKMORE: Yes.

Mr. BRADETTE: I should like to ask a question.

Mr. BLACKMORE: I should like to see some of those who have not asked questions ask them.

The WITNESS: So that the record will not indicate that this is the only view which I attributed to this group I would like to add one or two sentences, if you will allow me to do so. Another criticism that has been made is that the fund provides credit to people without any examination of their credit worthiness, that it creates rights in credit and that for the first time it sets up a bank which is run by the people who owe it money. This line of criticism points out that the majority of the voting strength in the fund will be held by debtor nations, that it will be the debtor nations who decide when conditions are to be waived, when countries are to be allowed to borrow more freely than is set out in the agreement itself.

The third general line of criticism is more constructive. It is the criticism that this particular scheme is grandiose, over-ambitious, and that it would be better to start from surer foundations and confine this to a stabilization credit granted from the United States to the United Kingdom. That is usually called the key currency approach to the problem.

Mr. BLACKMORE: Our group has asked a great many questions, but there are three or four supplementary questions on the excellent statement the witness gave. I should like to ask them for clarification before you go on with another aspect of the question.

The CHAIRMAN: What is the wish of the committee? Is it the wish of the committee that other members should now ask their questions or that Mr. Blackmore should be allowed to proceed?

Mr. BLACKMORE: I want to ask the meaning of several statements he made in his exposition on the general policy of nations to resist depression. He mentioned that the consulting states may decide upon some sort of general expansionist policies. I thought it would be of value to the committee to tell us what such policies might be. Let us suppose that another depression like the one of 1929 has set in and these nations have got together. What would the witness say might be devised by the nations themselves as expansionist policies? We are examining Bretton Woods to see whether it has any efficacy in the case of depression.

The WITNESS: I am quite prepared to list the various types of expansionist policy. I do not know what conclusions could be drawn from any list that I might give. I could refer to the expansion of bank credit. I could refer to unbalanced budgets, and I could refer to deficit financing. I could refer to an expansion of international trade through tariff reductions, and no doubt to other types of expansionist policy.

Mr. BLACKMORE: I know it would help me greatly in my ability to appraise the over-all value of Bretton Woods to have all these matters explained, but if the witness would rather give that later on it would be satisfactory to me.

The WITNESS: I am entirely in the hands of the chair and the committee. If the committee wishes me to give an explanation, which would have to be of considerable length, of the various types of expansionist policy I am quite prepared to do so.

Mr. IRVINE: I think you have answered the question in a general way.

The CHAIRMAN: I think Mr. Blackmore's question arises out of the fact that you did state a few moments ago that at the onset of the last depression if we had had the Bretton Woods organization at that time instead of each individual nation looking out for itself and taking individual deflationary protective policies the nations might have got together in consultation and taken a totally different course. I think it is an elaboration of that which Mr. Blackmore wants.

Mr. BLACKMORE: That is right.

The WITNESS: I can answer that in a few words, that it seems to me looking back now that the world would have been better off in 1931 and 1932 if instead of going in for policies of trade restriction the world had gone in on a co-ordinated basis for policies of monetary expansion.

Mr. BLACKMORE: I quite agree, Mr. Chairman. What I cannot quite see is why we have to have all the harness, halters and hobbles of Bretton Woods in order that such a thing as that can be done. Why do we have to have the objectionable and dangerous features of Bretton Woods in order to have a consultative body? That is the thing I am not quite clear on in my mind.

The WITNESS: I would rather, if you agree, answer questions you might ask me regarding any objectionable and dangerous features to Bretton Woods than engage in a debate.

Mr. BLACKMORE: In order for me to give those I would have to occupy part of the time of the committee which I think at this time is not desirable, but I would like to have an explanation of that. There is another matter. Suppose I give four or five things I have jotted down which I would like to have the witness explain because they will add to my understanding of the whole thing, and perhaps that of one or two others in the committee. He mentioned the fact that by consultation the nations might have been able to arrive at some device that would have lessened the force of the depression. If that was true then the nations must determine what were the causes of the depression, and they must be prepared to offer remedies for those causes. If I am correctly informed the first main cause of the great depression in the United States was the cessation of foreign lending by the United States which took place in 1928. The second one was the raising of the re-discount rate by the Federal Reserve Board in the United States. The third one was the consequent loss of confidence in securities on the stock exchange which resulted in a rapid spiral downward. Those are the first three. What I cannot see is how in the world any consultative body consisting of 54 nations would be able to advise the United States to recommence her foreign lending policy or cause the Federal Reserve Board to bring down again the re-discount rate. It is that aspect which makes me listen to the statement that the witness gave with a desire to hear a lot more.

The next point that I noted was that he mentioned economic warfare and spoke as though economic warfare consisted of trade restrictions such as foreign exchange control, tariffs, and devaluation of currencies when, as a matter of fact, I wonder if economic warfare is not really the cutting of prices and the forcing of one nation's commodities into another nation's markets, causing an adverse trade balance, a thing which we know has occurred in the case of Great Britain at the hands of the United States to an alarming degree, a thing which we have suffered from a great deal in Canada at the hands of the United States. I think there are two aspects of economic warfare. What astonishes me is that this second one which is really the cause of the trouble, if I understand it correctly, is so rarely referred to, and the stress is all placed on the protective devices which the United States used to shield themselves from the impact of

the depression. I should like to have the witness tell us whether or not I am right in saying that economic warfare is also price cutting and keen commercial rivalry through price competition.

The CHAIRMAN: Are there any other questions you want to have noted?

Mr. BLACKMORE: I have two more which I will mention. He mentioned vigorous government action as being a means which could have been adopted to overcome the depression. I should like to have the witness tell us about that because I have come to look upon him as a man of great knowledge and understanding. I should like to get additional information for myself. What is the vigorous government action that could be taken in the United States to overcome a depression such as set on the United States in 1929 and 1930? What vigorous government action could Canada, Great Britain and others have taken at the same time?

Then I had one other question but I think that it has to do with the same thing. It is the changes in domestic policy to overcome a depression.

The CHAIRMAN: Thank you, Mr. Blackmore; those questions have been noted. Will other members of the committee proceed with their questions, please.

Mr. MICHAUD: I should like to have an explanation of the working of article 5, section 7, which has to do with repurchase by a member of its currency held by the fund.

Mr. FRASER: Is that in the bill?

The CHAIRMAN: In the white paper at page 23.

Mr. MICHAUD: Subsection (a) reads:

"A member may repurchase from the fund and the fund shall sell for gold any part of the fund's holdings of its currency in excess of its quota."

I presume that the first "its" refers to the member and not to the fund?

The WITNESS: That is right.

By Mr. Michaud:

Q. It is not quite clear. And the other "its" towards the end of the line in the same way?—A. That is right.

Q. Now, farther below, (b) of section 1. I wonder if the witness could give us figures to show that, because I would like to understand how it works out. I have tried to figure it out for myself, taking India as a basis, because her quota is \$400,000,000 and it is easy to figure out percentages. Assuming that India in the course of the fiscal year shows an accumulation of \$20,000,000 in gold—I presume that monetary reserve is equivalent to gold, is it?—A. No, monetary reserve is defined in the section on explanation of terms at pages 36 and 37 of the Canadian Print: "A member's monetary reserve means its net official holdings of gold, or convertible currencies of other members, and of the currencies of such non-members as the fund may specify."

Q. I wonder if the witness could give us some figures?—A. This is a complicated provision and I would not want to use up the time of the committee now while I made a calculation, but I will, if you will permit me, send you figures later to show how this would work out and confine myself to a general explanation.

Q. Covering section VII.—A. Yes. These repurchase provisions are an important means of ensuring that the fund's resources will be used properly and be kept as liquid as possible for the benefit of all members. As you have pointed out, a member can repurchase its own currency from the fund for gold at any time. In doing so a member can reduce or terminate those deterrent charges, or interest rates, that have been the subject of some discussion here, and in doing so it will also strengthen the fund's position, because obviously the gold is a generalized asset of the fund that it can use to acquire any currency it happens to need.

In addition to this right on the part of members to repurchase their currencies from the fund for gold, there are certain specific obligations that are set out in paragraph (b). The purposes of these annual repurchases are these: first, to make sure that a member uses its own resources to the same extent as it uses the fund's resources to meet an adverse balance of payment. That is to say, you do not want to create a situation where a country faced with an adverse balance of payment is relying entirely on the fund to meet that adverse balance of payment. This operates so long as the member's monetary reserves as they are defined exceed its quota. If a member is holding independent reserves in excess of its quota and has an adverse balance of payment, then it must use its own independent reserves, paripassu with its drawing power on the fund to meet that unbalance in its international account. If it does not use them paripassu then at the end of the year it has to use such amount of its monetary reserves as is appropriate to produce the result that the unbalance that has occurred in its international payments in the course of the year has been met to the extent of 50 per cent by drawing on the fund—or to the extent of no more than 50 per cent by drawing on the fund—and to the extent of at least 50 per cent by drawing on its own monetary reserves.

The second objective of these annual repurchase provisions is to ensure that when a country finds its balance of payments favourable and its monetary reserves increasing it will use the increase in its monetary reserves to repurchase its currency from the fund to the same extent as it builds up its own reserves. That is to say, if a country has previously borrowed from the fund or borrowed through the fund so that the fund has been holding more than 75 per cent of the quota of that country in the form of national currency—

Q. That corresponds to the currency?—A. That is right; 75 per cent was the original currency contribution.

Q. And that is why they have the 75 per cent?—A. Yes.

Q. It refers to 75 per cent of the quota which corresponds to 100 per cent of the currency?—A. No, it is 75 per cent of the quota which takes the form of currency. Say that the fund's holdings of a country's currency have gone up from 75 per cent to 125 per cent over a period of two or three years, and then in the fourth year that country has a favourable balance of trade with the result that its independent monetary reserves have increased beyond what they were at the beginning of the year we are referring to, then that country is under an obligation to use half of that increase in its own independent monetary reserves to repurchase its currency from the fund.

Q. And that currency is taken out of the fund—taken home?—A. It is taken back by the members.

By Mr. Fraser:

Q. And the gold they use is put into the fund?—A. The gold they use is put into the fund.

Q. And eventually the fund is built up into gold?—A. That is taking a very extreme view.

Q. I know it is, but that is what eventually might happen?—A. You are asking me whether it is theoretically possible that the fund should come to consist entirely of gold?

Q. No, it might eventually if every nation was prosperous for a number of years.—A. No matter how prosperous nations are they cannot all have favourable balance of payments.

Mr. BLACKMORE: Hear, hear; that is important.

By Mr. Fraser:

Q. The gold reserves of the bank will eventually be built up to some extent?—A. So long as—the chairman has given me the answer to this: these provisions operate only to the extent that the fund's holdings of a member's currency exceed 75 per cent of the quota of the member, so that the maximum to which the gold reserves of the fund could be built up from the operation of these provisions is 25 per cent of the fund.

The CHAIRMAN: It could never exceed 25 per cent on the present set-up.

The WITNESS: Quite right, so far as the operation of the repurchase provisions is concerned.

By Mr. Quelch:

Q. If all nations balanced their trade at the start nobody would be using the fund?—A. If all nations balanced all of their international payments nobody would be using the fund, that is right.

By Mr. Bradette:

Q. No doubt this conference had the highest motives and they must have had in their minds that the condition will never recur which happened before the war. I believe that the war was caused by economic rather than political reasons; we had the "have" and the "have-nots"; and I am highly impressed with subsection (ii) of article I on page 18 of the report:

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

Now, under that conference would it be possible at the moment or later on when it is accepted to have a kind of pooling of the raw materials of the world? At the present time this would be signed only by the "haves" and the "have-nots" would be practically out of it. When I say that, we all realize that if Japan's attitude was one of aggrandizement because it was short of raw materials and Germany wanted to have a place in the sun because she didn't have access to the raw materials of the world. The same thing applied to other nations, but I shall not name them now. This will be leading to a pooling of the raw materials of the world in a stabilized or even at a standardized price, because otherwise we would follow the same route as we did in the past, all that is included in the conference will be to shatter the peace again; because I say it is the access to the raw materials of the world that a nation like Great Britain is fighting so strongly for at the present time. Will she be any better off when this in full function and the recommendations will be given their full strength, "to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy"? Those are high ideals indeed, and if they are partly accomplished Bretton Woods would be fully warranted to be accepted by every nation of the world. My question is, will it be conducive to the pooling of raw materials of the world? Was machinery to that end discussed at the Bretton Woods conference? Was there that possibility?—A. I will, if I may, merely answer that question and not comment on the interpretation that the honourable member has given to the causes of the war. The question is whether any attention was given to the question of access to raw materials at Bretton Woods. Bretton Woods, of course was a monetary and financial conference.

Q. There is mention of trade.—A. Yes, on page 17 I find:

The United Nations Monetary and Financial Conference recommends:
To the participating governments that, in addition to implementing the specific monetary and financial measures which were the subject of this conference, they seek, with a view to creating in the field of international economic relations conditions necessary for the attainment of the purposes of the fund and of the broader primary objectives of economic policy, to reach agreement as soon as possible on ways and means whereby they may best:

(1) reduce obstacles to international trade and in other ways promote mutually advantageous international commercial relations;

(2) bring about the orderly marketing of staple commodities at prices fair to the producer and consumer alike.

I believe that is the clause that the Bretton Woods Conference came to adopt in the resolution on this question. If I am not mistaken, Mr. Coldwell, this subject was discussed at San Francisco.

Mr. COLDWELL: It was, yes.

The WITNESS: And I believe that in the report of the Committee on Economic and Social Co-operation there was some reference to the problem.

Mr. COLDWELL: Yes.

The WITNESS: The French were very insistent on it.

Mr. COLDWELL: Yes. In fact this fund to a degree assists a nation to get raw materials and supplies.

Mr. BLACKMORE: How?

Mr. COLDWELL: Because it provides for that money in certain circumstances which it can use.

Mr. BLACKMORE: It has to pay the money back. How is it any better off?

Mr. COLDWELL: Not necessarily pay the money back, but sometime or other through the production of goods and the export of goods it obtains the currency so it can repay the debt.

Mr. BLACKMORE: If it can find a market.

Mr. COLDWELL: If it can find a market. You have to bear this in mind that this looks to something else. While this is purely a monetary arrangement it is hoped it will be paralleled a little later on by an arrangement covering trade and tariffs, just as Mr. Rasminsky has said they will deal with another segment of the economic and social situation altogether in the Social and Economic Council. It only dealt with one of the problems, and all this was a piece meal dealing with a number I think of economic and social problems. It seems to me, in looking over this agreement now and having heard the witnesses, that while there are some reservations we may have as to the advisability of the complete success of it, yet this looks to me to be a step in the direction of more international co-operation to solve the problems of the world. I cannot see that we can expect, any of us, perfection at an international conference. You cannot get it.

Mr. BLACKMORE: Mr. Chairman, if I might be permitted to ask the witness a question: if these four matters which are referred to on page 17, items 1, 2, 3 and 4—

The CHAIRMAN: Of Resolution VII.

Mr. BLACKMORE: Yes, of Resolution VII; reduce obstacles to international trade, bring about the orderly marketing of stable commodities at prices fair to the producer and the consumer alike, deal with the special problems of international concern, facilitate by cooperative effort the harmonization of national policies of member states designed to promote and maintain high

levels of employment and progressively rising standards of living—may I ask this, if these conditions were brought into existence would there be any need any longer for Bretton Woods? I would like to call attention to the fact that it was pointed out a few minutes ago that every nation would become prosperous and would have no need for funds at all.

Mr. COLDWELL: We would not be sitting around this table discussing this if that were so. The reason we are sitting around this table is because that condition does not exist.

Mr. BLACKMORE: Is it not obvious to everybody that we are considering the cart before the horse; or, considering the harness, the halter and the hobbles before we start to even consider the horse?

Mr. JACKMAN: Or, the nose bag in front of the horse.

Mr. BLACKMORE: For example, no nation ever suffered from an adverse trade balance —

The CHAIRMAN: Mr. Blackmore, you have registered your opinion. We rather agreed that we would confine the present scope of our inquiry to question and answer; and I do not want you to think the chair is unfair to you.

Mr. COLDWELL: I am sorry, Mr. Chairman; I did express an opinion just now.

Mr. BLACKMORE: May I put that in the form of a question then; in order to be fair I'll put that in the form of a question and ask him if he would answer it.

The WITNESS: I will try to answer it briefly. I do not think there is very much chance of the objectives set out in resolution VII being achieved without some degree of co-operation with regard to international monetary questions; and I think that the whole history of the last thirty or thirty-five years demonstrates conclusively that nations if left to themselves and not brought together through some such organ of consultation and mutual aid will not be particularly nice to each other. I know that there is a good deal of feeling in some quarters that attempts of this sort at achieving international co-operation are not realistic. Well, my reply to that would be that the so-called realistic course of non-co-operation has been tried in the last twenty or twenty-five years with the results that are apparent to all of us, and I think that we can count on those same results in the future if we try more of this so-called realism in the future. In other words, I really believe, Mr. Blackmore, that the type of so-called realism which believes that you will get anywhere without co-operation and consultation among the nations is not a genuine realism at all. It has been tried and has failed.

Mr. BLACKMORE: Might I ask the witness following up a question by Mr. Bradette, which I thought was a most discerning question; what Mr. Bradette wanted to know is whether any provision is conceived of whereby the raw materials of the world can be made available to the needy nations.

The CHAIRMAN: The witness has already answered that question, Mr. Blackmore.

Mr. BLACKMORE: No, I do not think he has. The question that has to be answered I think is this, will such provision be made with Bretton Woods?

The WITNESS: Mr. Blackmore, do you really expect me to be able to answer a question of that sort?

Mr. BLACKMORE: I think we need to have it answered.

The WITNESS: The answer to that question depends upon the policies of fifty governments throughout the world, and I really do not see how you can expect a clear and definite answer to the question, will provision be made under which the nations of the world will have equal access to raw materials.

Mr. BLACKMORE: May I ask the witness this, I do not wish to take up too much time, but if we have no assurance that such measures as this will be taken then we can doubt the advisability of accepting the Bretton Woods proposal as an answer to the question; is that not a fact?

The WITNESS: I can see no reason —

Mr. BLACKMORE: May I ask this question, one more; I think the witness has done superbly here; he pointed out that if a depression such as we had in 1929 and 1930 were to set in no Bretton Woods arrangement or not any other kind of an arrangement could stop it; that is a mighty important statement.

The WITNESS: I don't think I made that statement, Mr. Blackmore.

Mr. BLACKMORE: Would you correct it if I got the wrong impression?

Mr. IRVINE: He did not make that statement.

The WITNESS: I do not know what statement of mine you are referring to, so I do not know what type of correction to make.

Mr. BLACKMORE: Suppose if you restate it; supposing Bretton Woods were accepted by all the nations and a depression such as we had in the United States came on and for the same reason, which it might; first, through the cessation of foreign lending by the United States; and, second, by an upward revision of the re-discount rate, which under Bretton Woods could happen; and then loss of the security market; could Bretton Woods do anything about that at all?

The WITNESS: I would answer that question in this way; I would say first that if Bretton Woods and the general line of development of which Bretton Woods is but one example, if Bretton Woods is adopted and this general line of development takes place, that there is less likelihood of a serious depression of that sort coming on in the United States or any other country.

Mr. BLACKMORE: Now, why?

The WITNESS: And, if I may complete the answer—

Mr. BLACKMORE: Certainly.

The WITNESS: And secondly, I would say that even in the event of a serious depression, an organization like Bretton Woods can contribute something, not very much perhaps, but it can contribute something to alleviate a depression.

Mr. BLACKMORE: What I would like to know from the witness, Mr. Chairman, is how and to what extent.

Mr. IRVINE: That has already been answered.

The CHAIRMAN: Yes. And now, Mr. Blackmore, I do not want to be unfair to you, but I am afraid I will have to rule that that question has already been answered; and I would suggest that you would study again what the witness has already said and I think you will find the witness has gone as far and as frankly as he can in answering your question. I think it is already answered.

Mr. BLACKMORE: Now, Mr. Chairman, in all frankness and sincerity, I want to tell you that it has not been touched.

Mr. FRASER: The witness gave me an answer to this question, but I must say, Mr. Chairman, that I am not satisfied with the answer; do you mind if I bring it up again?

The CHAIRMAN: Certainly.

Mr. FRASER: It is in regard to this article V, (a):—

(a) A member may repurchase from the fund and the fund shall sell for gold any part of the fund's holdings of its currency in excess of its quota.

Now, twenty-five per cent to be paid in gold and 75 per cent in currency. I believe I am right in that. But supposing the currency in excess of 75 per cent

goes up to say 125 per cent, then that nation is allowed to purchase one-half of that excess back; say it purchases twenty-five per cent back and buys gold for it, therefore there is another twenty-five per cent going back into that bank in gold and it is kept there too.

The WITNESS: Have you read the rest of it?

Mr. FRASER: I read the bottom part too, I read the whole thing. I still cannot see how you can do it with twenty-five per cent in gold, because I do not see any loop hole through which it comes out again.

Mr. IRVINE: That is a good place to have it, you cannot get it out again. All right, keep it in there.

The CHAIRMAN: Would you mind if we postponed the answer to that question?

Mr. FRASER: Yes, Mr. Chairman, because I haven't got it and I do not think you have.

The CHAIRMAN: Mr. Bracken:

Hon. Mr. BRACKEN: Mr. Chairman, might I ask one or two questions?

The CHAIRMAN: Certainly.

Hon. Mr. BRACKEN: My first one is this; has an ordinary outlander who is not a member of the committee the right to ask questions?

The CHAIRMAN: With the consent of the committee you have the full right to ask questions.

Some Hon. MEMBERS: Agreed.

Hon. Mr. BRACKEN: Might I ask, Mr. Chairman, what are the plans of the committee; are you planning to meet later on?

The CHAIRMAN: We plan to sit three times to-day, and to-morrow.

Hon. Mr. BRACKEN: Are you planning to adjourn now?

The CHAIRMAN: At 6 o'clock we will adjourn.

Hon. Mr. BRACKEN: Would you mind if I were to ask one or two questions?

The CHAIRMAN: No, carry on.

By Hon. Mr. Bracken:

Q. I will just ask you this, the question will be rather elementary and your answer may have to be rather general: What contribution is Canada expected to make in money?—A. \$300,000,000.

Q. Into the fund?—A. \$300,000,000 to the fund and \$325,000,000 to the bank. These are expressed in both cases in terms of American funds. The form of the contribution would be this. To the fund: gold to the value of \$75,000,000 American. Canadian dollars to the value of \$225,000,000 American. The Canadian dollar contribution could take the form, under the provisions of this agreement, of a non-interest bearing loan from the fund to the dominion government, which has to make the contribution.

Q. Is that a contribution that is to be made at once or just a portion of it?—A. In the case of the fund the entire contribution is to be made when the fund notifies Canada that the fund will shortly be in a position to begin exchange operations, so that one could say the entire contribution is to be made at once, yes.

Q. That is the money contribution that Canada is asked to make to this general scheme. What contribution would we make in the way of restriction of our sovereignty?—A. I do not think, Mr. Bracken, that there is any restriction on our sovereignty in entering this agreement. We first of all, if parliament approves, join of our own free will. We assume for such period as the Canadian government or the Canadian parliament, in the exercise of its sovereign rights,

wishes us to continue to assume them, the obligations that are set out in the instrument. Those obligations you are familiar with. I read them over yesterday. The most important, from the point of view that I believe you have in mind, is the obligation to consult with the fund regarding changes in exchange rates. The other main obligations are obligations regarding conduct of our exchange business and they are two in number. The first is, not to place restrictions on payments for current account; in other words, not to import goods into Canada and tell the exporter that he cannot be paid, that his funds are frozen here. That would be contrary to our undertakings under this agreement. The other is to establish the convertibility into foreign exchange of Canadian dollars earned by foreigners. I think that those are the only important obligations that are assumed. Canada would be free to withdraw from the fund at any time.

Q. If you considered it any restriction on our sovereignty it would be rather a minor one.—A. Well —

Mr. MARIER: It just does not exist.

The WITNESS: Well, I do not think that there is any. I would say, Mr. Bracken, that there is no restriction on our sovereignty. I would say that what this is is an exercise of sovereignty, the exercise of sovereignty in joining or becoming a member of an international organization for purposes that we regard as being in the Canadian interest.

By Hon Mr. Bracken:

Q. Technically we give to another body some part of our sovereignty, but we give it in the expectation that we are going to get back more than we give.—
A. Well —

Q. But even what we give you do not regard as any measure of infringement of our sovereignty?—A. I do not see in what particular respect we part with any of our sovereignty at all. If we enter a commercial treaty with a foreign country under which we undertake to bind certain tariff rates for a specified period of time, I suppose one could say that that is a derogation of sovereignty because it then lies outside the sovereign power of the Canadian parliament to change those rates. If it is in that sense that you suggest that there is some derogation of sovereignty here, I suppose that it could be argued that there is something analogous in the fund. But I would not myself consider that an alienation or derogation of sovereignty in the ordinary sense.

Q. Mr. Rasminsky, what I wanted was your opinion as to whether our sovereignty is being infringed upon, and if so whether it is only to a very minor extent. Now you have answered that. You have answered it technically, but you have answered it in the way I wanted you to. Let me ask this. I am trying to see what our contribution to this might be in money or infringement of sovereignty or what have you. Then I want to see what the advantages may be. What is the maximum money loss that might accrue to Canada if this thing did not go well?—A. Under the international monetary fund we put in \$300,000,000, of which \$75,000,000 is in the form of gold and \$225,000,000 in the form of Canadian dollars. The assets of the fund can never lose their present gold value. There are provisions in the fund under which, if any exchange depreciates, that member is required to make good the depreciation of the exchange rate in order to maintain the gold value of the fund's assets. If the fund were a complete failure, it would then go into liquidation, and it would have to liquidate the holdings. Let us take the most extreme assumption, and assume that before going into liquidation the fund had lost all its gold, had parted with all its gold and had nothing but national currencies. The fund would have to liquidate the holdings of the currencies of the various members. There are detailed schedules which are set out in the annex to the Act indicating what is to happen in the case

of liquidation, how the liquidation is to take place. The essential point in the case of liquidation, or an important point, is that members do undertake that they will permit the unrestricted use of their currencies held by the fund for current account purchases. So that if the fund was a complete failure and went into liquidation, Canada would get a certain parcel of currencies, some American dollars, some sterling, some Bulgarian leva, some Greek drachmas and so on, with a commitment on the part of the countries concerned that those currencies could be used to make purchases in those countries. So that the likelihood would be that, in the event of complete liquidation, we would be able to recover at least some proportion of the original investment of \$300,000,000. One cannot say that we would recover the whole of the \$300,000,000, because one does not know whether after liquidation the foreign exchange value of the currencies held by the fund would have depreciated or not. But the likelihood is that the money loss to the Canadian government in the event of complete liquidation would be something substantially less than \$300,000,000.

Q. Are you speaking only of the fund now?—A. I am speaking now only of the fund, Mr. Bracken. With regard to that loss, however, the Canadian dollars which would have been lost under this pessimistic assumption are Canadian dollars that would have been used to buy goods in Canada. Any loss would in fact have taken the form of the production, manufacture, growth and creation and export of goods that might not otherwise have been exported.

Q. To that extent it is no more a loss than putting the money into an unemployment project?—A. To the extent that what I have said is true, it is no more a loss than putting the money into an unemployment project.

Q. I think you have substantially answered my question, Mr. Rasminsky. I definitely asked and tried to get from you what might be the maximum loss. You have spoken of the fund.—A. Yes.

Q. You have not spoken of the other \$325,000,000.

Mr. COLDWELL: We have not dealt with that yet.

The WITNESS: Well, I could deal with that very briefly, Mr. Bracken, by saying that as regards the \$325,000,000, the entire amount is at risk.

By Mr. Coldwell:

Q. We do not put up the \$325,000,000.—A. We do not put up the \$325,000,000. All that we put up is 20 per cent.

Q. Of which— —A. Of which 2 per cent is in gold and 18 per cent in Canadian dollars, that could be used only to buy Canadian produced goods.

By Mr. Low:

Q. That is initially?—A. That is initially. The balance remains as a sort of guarantee fund subject to recall.

By Mr. Michaud:

Q. That is the international bank?—A. That is the international bank.

Mr. COLDWELL: Which is our next project.

The CHAIRMAN: Yes.

By Hon. Mr. Bracken:

Q. You have indicated what might be Canada's monetary loss under the worst conditions we could conceive. What we and those we represent would want to know is what might be the maximum advantage we would receive. You answered that last night in what to me, as a layman, was somewhat technical language. Could you say briefly, in laymen's language, what we might get out of this, not in money but in maximum trade or avoidance of depression or avoidance of inflation? Can that be stated very briefly?—A. Well,

I would say, Mr. Bracken, that the most general advantage that we receive through this and through the other projects along these lines, is a chance at the creation of a world which is a good deal better, which involves a higher standard of living for every one, than what we have known for the last twenty of twenty-five years. That I think is the real advantage of this, the most general advantage of this project to Canada. It represents an effort to turn our backs on some of the worst mistakes, at any rate, that have been made in the organization or disorganization of economic relations among nations in the past, and to try for something better. If you ask me to measure that in monetary terms, to say to what extent our trade will be improved as a result of this, to what extent we will have additional employment here and additional incomes, I am afraid I cannot do it.

Q. No, I do not want that. But you expect from this some ironing out of the ups and downs of the economy of the past, and some evening up of international trade and probably some total increase of international trade. Would you expect those results?—A. Yes. I would expect that this would provide a monetary background that would contribute to the balanced growth of international trade and productive investments for the mutual advantage of the countries that are taking part in this project.

Q. Would you think that if we had had this in 1929, 1930 and 1931, we could have to a considerable degree avoided the difficulties we ran into at that time?—A. I find that very difficult to answer. It is difficult to start at any one point in history and say that if, against the whole background leading up to that point, one had at that point established an institution of this sort things would have carried out a different course. By 1929 it may well be that there were inherent in the situation elements that this could not have contended with. If you put the question this way and say, "Do I think that if institutions of this sort had been established immediately after the last war before all the maladjustments and disequilibrium had been created it would have made a difference," then I have less difficulty in answering. I would answer that quite definitely yes, that I do think we would have been a good deal better off if this institution, and the general approach that this institution represents, had been established and adopted immediately after the last war.

Q. That is the answer that I expected from you or obviously you and your associates would not have brought this measure forward at all. I want to ask one other question. Suppose for some reason which I do not expect Canada would want to get out of this. What is the answer? How do we get relieved from our obligations?—A. Write a letter of resignation. That is all.

Q. So if at any time we should reach the conclusion that it is not a good proposition we can withdraw with whatever losses there might be in contributions that had already been granted?—A. That is right.

Q. Now may I come to two or three questions a little bit more specific. They are somewhat related. I asked to get a statement showing the extremes of price trends in recent years, average world price trends up and down. I will illustrate what has been given me and then I will ask a question. The United States price level declined from an index of 221 in 1814 to 79 in 1843. From 1843 to 1864 it went up from 79 to 253. Then after 1864 it went down from 253 to 64, according to these figures. Then from 1897 it went up from 64 to 231. Then from 1920 to 1932 it went from 231 down to 74. I only give those figures—and they need not be taken as accurate—to show that in the past the average of world prices has gone a long slope down and then a long slope up and then a long slope down, and so on. The question I would like to ask is one that you have answered in a general way before. Is there anything in the operations of the Bretton Woods agreement which will guarantee—I do not want to say "guarantee".

Mr. BLACKMORE: Give reasonable assurance.

By Hon. Mr. Bracken:

Q. Give reasonable assurance that the world will not experience these long term trends of the price level. I would expect your answer would be that it would level them out somewhat but I will let you make your own answer.—A. I think Bretton Woods would help to level out somewhat the types of price change that might be caused by the shorter period changes in a country's international monetary reserve, but that is not the type of price change you have referred to. You have referred to very long period changes.

Q. It does not matter how we put the question. In the past there have been these wide changes in the price structure which have been very bad for our economy. There may be many different causes. Whatever the cause was the effect was bad. My question is to what extent will the Bretton Woods proposals help us to avoid the ill consequences of those trends?—A. I would say that, looking to the future, I would expect that the major determinants of price policies will be the monetary, fiscal and general economic policies carried out in the largest industrial countries, and that these policies are not likely to be influenced over a long period of time to a significant degree by the establishment of this institution.

Q. To some degree but not to a significant degree?—A. Not to a significant degree, no.

Mr. QUELCH: It would require a change of heart.

Mr. COLDWELL: It would require a change in economics.

By Hon. Mr. Bracken:

Q. Here is another question. It is just a technical point, and it may or may not bear directly on this matter. At the present time the price of gold is \$35 an ounce?—A. In the United States, yes, sir.

Q. Is there anything in the agreement which ties the hands of the United States with respect to changing the price of gold?—A. No, sir.

Q. If that was changed what bearing would it have upon the Bretton Woods proposals, good or bad?—A. When I said that there was nothing in the agreement that tied the hands of the United States with regard to a change in the price of gold I had in mind, of course, that the United States in changing the price of gold would be subject to the same obligations as other members of the fund, namely an obligation to consult with the fund regarding any proposed change in exchange rate, which in the case of the United States is expressed as the price of gold. The fund would not have the right to object if the change in the price of gold did not exceed 10 per cent, and if the United States, notwithstanding the objection of the fund, changed the price of gold by more than 10 per cent certain consequences would follow for the United States, the most drastic of which might be expulsion from the fund. So that it is in that sense that my previous answer should be interpreted. May I ask you to be good enough to repeat the other question that you put?

Q. I have asked several. That is about the price of gold.—A. I do not think I have entirely answered your last question.

Q. I said first, is there anything in the agreement which ties the hands of the United States with respect to changing the price of gold, and I think your answer was "no"?—A. Now I have qualified it.

By Mr. Quelch:

Q. Would section 1 of 4 still apply if the United States was expelled from the fund?—A. The question was not dealt with at Bretton Woods.

Q. It would very chaotic, would it not?—A. It would be rather odd.

Q. To have all that currency tied to the currency of a member which was not any longer a member of the fund.—A. Of course, in section 4 the United States dollar is defined as being of the standard of weight and fineness in effect on July 1, 1944. So it is a purely national unit. It is not actual currency.

By Hon. Mr. Bracken:

Q. There is one other question. I think perhaps you have answered it, and only a general answer can be given. I understand that there is considerable inflation to-day in a good many parts of the world, and it is even suggested there may develop a considerable amount of inflation in the United States. Once the nations get together and undertake the proposals under the Bretton Woods agreement, as I have my question here it is, "Can the agreement prevent inflation from spreading and increasing?" I think perhaps I should change that. Can the agreement lessen to any considerable degree the extent of inflation?—A. I think that is really much the same question as I answered broadly speaking in the negative before when I said I thought that the policies pursued by the major countries would be the main determinants of what their price levels would be. Bretton Woods can contribute something to attenuating the degree of inflation. This does not purport to be a definition of inflation, but the general sense of what inflation means is that there is a superabundance of purchasing power in relation to the volume of goods available, that there is too much money and not enough goods, and consequently the price per unit of goods is bound to go up. The way Bretton Woods can help relieve that situation is by introducing additional goods from outside into countries which are experiencing inflation. Obviously one of the crying needs of the European and Far Eastern countries whose currencies are greatly inflated in value is imports from abroad, and to the extent that Bretton Woods helps that now, or enables other countries under similar conditions to obtain imports from abroad, it does help. Perhaps it helps in a more important way than I thought at first when I listened to your question. Perhaps it does help to control to some extent that type of inflation.

By Mr. Blackmore:

Q. Would the imports need to be in the form of gifts? If they had to be paid for by exports they would have very little effect?—A. The imports, Mr. Blackmore, obtained through using the facilities of the fund or the bank are in a sense obtained on credit. Now, since they are obtained on credit there is no immediate counterpart in the form of export of goods and consequently from the point of view of the country which is experiencing inflation it does not make any difference at all, from the point of view of its effect on the inflationary situation, whether the goods are obtained as a gift or on credit; the important thing is that additional goods are introduced from abroad.

Q. That would be from abroad.—A. I was referring to the inflationary period.

By Mr. Coldwell:

Q. I was going to suggest, Mr. Rasminsky, that you prepare a table for the record, giving us the number of votes that each nation will be entitled to cast in relation to this fund. It is a mathematical matter.—A. Mr. Chairman, I thought that that question might be asked and I have such a table which shows it in terms of percentage. Would that give you what you want?

Q. Yes, that would be all right.—A. It gives for the fund and for the bank the percentage contribution of each member to the resources and the percentage of voting power cast by each member.

Q. Are the total number of votes to be cast given there?—A. No.

Q. Does it show how many votes the percentage represents?

The CHAIRMAN: That total number of votes would fluctuate if members increased their quotas and so on. I think the percentages would be of more use.

The WITNESS: I have the total number of votes.

Mr. COLDWELL: Give us the total number and we can work them out from the percentages.

HH-3

PERCENTAGE DISTRIBUTION OF QUOTAS AND VOTING STRENGTH

COUNTRY	FUND		BANK	
	% Contrib.	% Voting Power	% Contrib.	% Voting Power
Australia.....	2.27	2.27	2.20	2.21
Belgium.....	2.56	2.53	2.47	2.45
Bolivia.....	.11	.35	.08	.31
Brazil.....	1.70	1.77	1.15	1.27
Canada.....	3.41	3.28	3.57	3.43
Chile.....	.57	.76	.38	.59
China.....	6.25	5.81	6.59	6.13
Colombia.....	.57	.76	.38	.59
Costa Rica.....	.06	.30	.02	.26
Cuba.....	.57	.76	.38	.59
Czechoslovakia.....	1.42	1.52	1.37	1.47
Denmark.....		(Not included in totals)		
Dominican Republic.....	.06	.30	.02	.26
Ecuador.....	.06	.30	.03	.28
Egypt.....	.51	.71	.44	.64
El Salvador.....	.03	.28	.01	.25
Ethiopia.....	.07	.31	.03	.27
France.....	5.11	4.80	4.95	4.66
Greece.....	.45	.66	.27	.49
Guatemala.....	.06	.30	.02	.26
Haiti.....	.06	.30	.02	.26
Honduras.....	.03	.28	.01	.25
Iceland.....	.01	.26	.01	.25
India.....	4.55	4.29	4.40	4.17
Iran.....	.28	.51	.26	.48
Iraq.....	.09	.33	.07	.30
Liberia.....	.01	.26	.01	.25
Luxemburg.....	.11	.35	.11	.34
Mexico.....	1.02	1.16	.71	.88
Netherlands.....	3.13	3.03	3.02	2.94
New Zealand.....	.57	.76	.55	.74
Nicaragua.....	.02	.27	.01	.25
Norway.....	.57	.76	.55	.74
Panama.....	.01	.26	.01	.25
Paraguay.....	.02	.27	.01	.25
Peru.....	.28	.51	.19	.42
Philippine Commonwealth.....	.17	.40	.16	.39
Poland.....	1.42	1.52	1.37	1.47
Union of South Africa.....	1.14	1.26	1.10	1.23
U.S.S.R.....	13.64	12.37	13.19	12.01
United Kingdom.....	14.77	13.38	14.29	12.99
United States.....	31.25	28.03	34.89	31.37
Uruguay.....	.17	.40	.12	.35
Venezuela.....	.17	.40	.12	.35
Yugo-Slavia.....	.68	.86	.44	.64

Total Number of Votes in Funds..... 99,000
 Total Number of Votes in Banks..... 102,000

Hon. Mr. BRACKEN: I had one other question to ask. Mr. Chairman, I am not asking anybody to venture opinions and I do not propose to venture my own, but perhaps I can indicate the question I have in mind. I think one of our difficulties in the past has been that we have not been prepared to take goods from other countries in payment for what we sent abroad. Under the operations of Bretton Woods both exports and imports you expect will be increased; will there be any tendency to lessen the imports of goods and to take promises to pay for the debt and so on?

The WITNESS: Would there be any tendency on the part of creditor countries? Is that what you have in mind?

Hon. Mr. BRACKEN: Would there be any tendency to lessen—to not accept goods from other countries in payment for our goods; will it tend in any degree in that direction?

The WITNESS: Mr. Bracken, to answer that question adequately I would have to go over a great deal of ground that I have already covered, so perhaps you will permit me to give a short answer.

Hon. Mr. BRACKEN: That is all I want; and if it has already been answered let it go at that.

The WITNESS: I would say that Bretton Woods—the line of development of which Bretton Woods is a part—far from encouraging any tendency on the part of countries to restrict imports should encourage a tendency on the part of countries to increase their imports.

Hon. Mr. BRACKEN: That is your judgment, and that is all I wanted. Now, Mr. Chairman, I had not intended to take up so much time and I want to thank the committee and the witness for permitting me to ask these questions.

The committee adjourned to meet again this day at 8 o'clock p.m.

EVENING SESSION

The committee resumed at 8 o'clock p.m.

The CHAIRMAN: Gentlemen, we have a quorum, we will resume our work. Mr. Breithaupt, you were trying to get my eye and had to leave.

Mr. BREITHAUPT: No, I was not. The only thing that I had in mind was that I understand just before adjournment Mr. Bracken was here. He was not a member of the committee and I suppose he was permitted to ask questions by common consent; but we have here other members who are not on the committee and we will never get through. I think it is appropriate that we should have extended to him that courtesy, but I hope that will not be the practice followed by the committee.

The CHAIRMAN: I accept the warning.

Mr. COLDWELL: Are we going to hear about the bank now?

The CHAIRMAN: If it is your wish, the witness is ready now to make his statement in regard to the bank.

Mr. FRASER: What about the questions that were asked? Is the witness going to answer them now?

The CHAIRMAN: In regard to the question as to voting proportions, that is ready and that is going into the record, Mr. Fraser. Are there any other outstanding questions?

Mr. FRASER: There were one or two questions over here, and I wanted to ask a question on currency being backed in gold.

The CHAIRMAN: That will be answered later.

The WITNESS: That question may involve a computation. I have not had a chance to look at it yet. If it does involve a computation that takes time, then I would ask your permission to submit the answer for the record.

Mr. COLDWELL: I thought the other answers were going to be given later and we were going to go on with the bank now.

Mr. IRVINE: I was going to ask one or two questions before you leave this. I asked it before and the witness said that it is not quite as relevant.

The CHAIRMAN: A little later, Mr. Irvine.

Mr. IRVINE: He said that it was not a thing he was discussing at that time. I would like to know how the variation between the value of currencies of the different nations, or as between one nation and another.

The WITNESS: You mean, as to how the exchange rate is fixed?

Mr. IRVINE: Yes, if you would like to put it that way.

Mr. FRASER: It is fixed here in Canada.

The WITNESS: I suppose one could answer that question in the good old fashioned way by saying that it is demand and supply that fixes any price, and that answer would be I suppose an accurate answer as regards the price of foreign exchange over a sufficiently long period of time. Over a long period of time a country's foreign exchange rate has to be such that the demand for foreign exchange on the part of its nationals to pay for imports and to pay for current services and to purchase investments abroad is equivalent to the supply of foreign exchange resulting from its exports of goods and services and from capital inflow. If the price of foreign exchange is fixed at too low a level the supply of foreign exchange will increase relatively to the demand for foreign exchange. In other words, if the currency is under valued exports will tend to be stimulated and imports will be relatively expensive as compared with domestically produced goods, and that condition will tend to raise the domestic level of prices until the equilibrium has been restored; and, conversely, if the exchange is under valued. Now, that answer is extremely theoretical.

Mr. IRVINE: Yes. Thank you.

The WITNESS: That is the theoretical answer. In any concrete case there will be other practical things to take into consideration. I must add this, that if the exchange rate is stabilized that means that there must be a fluctuation in the international reserves the supply and demand over any short period of time will obviously not coincide, and if a fixed rate is maintained then it must be through the use of your international reserve or your accretions to your international reserves to keep supply and demand during that time from exercising normal influences over exchange rates.

Other factors enter over short periods. For example in the case of Canada, a very important factor in determining the exchange rate has been the rate between sterling and United States funds. Traditionally the Canadian dollar has taken a position midway between sterling and the United States dollar. I mean by that if you take the sterling—U.S. average rate at the old parity of \$4.86 to the pound, when sterling has been depreciated about 20 per cent below that the rate of the Canadian dollar has been depreciated about 10 per cent below its parity. When sterling has been depreciated about 10 per cent we find a depreciation of about 5 per cent in the relation of Canadian dollars to American funds; and that represents if you like the medial position of the Canadian dollar. It has accurately represented the economic position of Canada as between the United Kingdom and the United States with our surplus of exports to the United Kingdom and our surplus imports from the United States. The surplus of sterling has realized fewer American dollars when sterling has been depreciated in relation to the American dollar rate and we have been less able to protect the value of the Canadian dollar and the Canadian dollar has tended to fall.

By Mr. Stewart:

Q. Following on that, would you say that the present rate is a natural rate?—A. Mr. Chairman, I have two objections to answering that question. One is that it opens up a brand new field and one that would take a lot of time to discuss and is not directly related to this measure. And the second objection is that I am afraid if I embark on a discussion of the exchange rate I might say something which under the provisions of the Exchange Fund Act would make me liable to three years' sentence in prison.

Q. Without getting you into any trouble, am I right in assuming that if the Bretton Woods agreement is ratified by the end of this month the present rate of exchange will be accepted as the Canadian rate?—A. Accepted by whom?

Q. Accepted by the fund.—A. If parliament ratifies this agreement and Canada adheres to the fund, then the procedure is as follows. The government will be asked some time in the future, shortly before the fund is actually in a position to start exchange operations, to communicate to the fund what the value of the Canadian dollar was sixty days before the fund came into existence. The latest date the fund could come into existence is the end of this year, and it certainly will not come into existence much before the end of this year. So, soon after the fund comes into existence at the end of this year the Canadian government will be asked to communicate the par value of the Canadian dollar based on the actual rate of exchange prevailing on November 1, 1945; which, as you say, is 10 per cent premium on American funds. This rate will become Canada's par value in the fund, unless as set out in section 4 (b) of article XX, "(i) the member notifies the fund that it regards the par value as unsatisfactory, or (ii) the fund notifies the member that in its opinion the par value cannot be maintained without causing recourse to the fund on the part of that member or others on a scale prejudicial to the fund and to members." And, if such notification is made, if the fund and the member do not agree, then it becomes a matter of negotiation and discussion between the member and the fund.

By Mr. Irvine:

Q. Mr. Chairman, I would like to ask one more question; apparently the Bretton Woods agreement is making an attempt to stabilize the disparity of exchange as between one country and another; would it not have been possible to have stabilized parity?—A. The question of the value of the Canadian dollar is a matter of Canadian government policy. If it were the policy of the Canadian government to have a different value for the Canadian dollar than the existing value it would be open to the Canadian government to change the value of its currency. That has no direct connection with the Bretton Woods agreement.

Q. I come to another question; the value of the currency then is based on the whim or wish of the government and not on either demand or supply, or imports or exports?—A. I suppose, sir, that the government in determining the exchange rate would take into consideration all the relevant factors in connection with such a determination, which would include those which you have mentioned as well as some others.

The CHAIRMAN: Is it the wish of the committee that Mr. Rasminsky should proceed?

Mr. Low: I have two or three questions which I would like to ask him now.

Some Hon. MEMBERS: Later.

By Mr. Low:

I wonder if I could ask the witness if it is not true that a debtor nation might possibly be put in a position where it could lose 90 per cent of its sovereignty over the control of its own currency; just pursuing the sovereignty problem a little further?—A. No, sir, I do not think that is so.

Q. Is it not true, Mr. Raminsky, that a country could reach a position where it could not depreciate its currency more than 10 per cent as a protective measure against adverse trade conditions?—A. No, sir, I have been over the clauses relating to the exchange stability once or twice, but I will be glad to run over them again if you wish me to do so.

Q. I do not think it is necessary to do that, but if I could just perhaps make myself a little more clear; I understand that with the formation of the fund a

country may be able to depreciate its currency value more than 10 per cent if they get that permission, but without that permission they cannot?—A. Well, sir, I think that I had better run over the clauses again, because I am afraid I failed to make that clear.

Mr. BREITHAUP: Would that not be a repetition? I mean, after all, it is on the record.

The WITNESS: Perhaps, if the committee does not mind, I might run over the whole thing.

Mr. IRVINE: It is on the record.

Mr. COLDWELL: It might not do any harm if you were to run over it again.

The WITNESS: I might make this short reply to Mr. Low; that if in the question he has put he substitutes for his phrase "with the permission of the fund" the phrase "after consultation with the fund", then the reply to his question will be, yes. If the question remains in its present form then the reply to the question is, no.

By Mr. Blackmore:

Q. What is the difference between those two?—A. Between "permission" and "consultation"?

Q. Yes. You mean that they can go ahead if they merely consulted the fund?—A. I have already explained the consequences in some detail, I think—the exact position as regards the consequences that might follow from an unauthorized change in the par value of a currency.

Mr. BLACKMORE: If the consequences are sufficiently severe, then it amounts to a prohibitive prohibition, does it not?

The WITNESS: If the consequences are sufficiently severe, then the country would naturally take into consideration the severity of the consequences of such action. But it seems to me that if you are maintaining that "after consultation with" is of equivalent effect to "with permission of" then it is necessary for you to demonstrate that the consequences of a country making an unauthorized change in its exchange rates are indeed sufficiently severe as to make such action in effect an action that is impossible for the country to undertake; and that has certainly not been demonstrated.

Mr. BLACKMORE: The opposite has certainly not been demonstrated at all, Mr. Chairman. This is one of the things that I think is very, very hazy to every member; at least it is to me. I have reference to just what would be the consequences of disobedience to the advice, we will say, of the fund.

Mr. COLDWELL: Is it a case of disobedience, Mr. Blackmore? Is it not rather a case where member nations agree that, in their general interests, they will lay down a rule, and if a nation wants to vary that rule to some extent it consults the representatives of the other nations involved, who would be affected; and then if it refuses to abide by the rules which they have laid down in the general interest of the world, then of course the nation takes the consequences. But that is not the same thing as interfering with its sovereignty by any means.

Mr. JAENICKE: It can withdraw from the fund.

Mr. Low: That brings up the very next question.

By Mr. Low:

Q. Mr. Rasminsky, just what happens when a member withdraws? Suppose that the 44 nations who signed the agreement at Bretton Woods ratify in their parliaments. What would be the effect, let us say, of Canada withdrawing from the fund as a result of not being willing to abide by the advice, if you say that, or the objection as outlined in article IV, section 5, subsection (ii) on page 21?—A. I would say in general that the consequences of a member withdrawing were

two: that the member was relieved of its obligations under this agreement, and second, that the member ceased to be entitled to any privileges under the agreement. The more technical question connected with the settlement of accounts of withdrawing members, the exact procedure, is set out in one of the schedules to this document, schedule D on the settlement of accounts of withdrawing members. But I take it that is not what you had in mind.

Q. No.—A. I think that the answer to your question, Mr. Low, is that there is in fact no continuing obligation on the part of countries which cease to be members of the fund, except the obligations set out in that schedule; and the main obligation there is one that I believe I mentioned earlier to-day, an obligation to allow the fund's excess holdings of its currency, after its original capital subscription has been repaid to it, to be used to finance current purchases.

By Mr. Blackmore:

Q. What are the privileges that would be withdrawn?—A. The ability to purchase exchange from the fund in your own currency.

Q. Would the country be completely free to purchase exchange directly from other nations?—A. Yes, it would.

Q. Whether those nations were members of the fund or not?

Mr. Low: Oh, that is another question.

The WITNESS: The question is can a withdrawing member purchase exchange from another member or from a non-member?

Mr. Low: That is right.

The WITNESS: To the best of my knowledge the answer to both questions is yes, it is. In fact, I do not see how there could be any question of the fund attempting to exercise any rights or control over a non-member, whether an original non-member or a country that has become a non-member by virtue of withdrawal.

By Mr. Quelch:

Q. It is article XI that has led to that impression.—A. I know that, Mr. Quelch. Article XI is written in very general terms, and it may be that the generality of the terms from this point of view is unfortunate. But all that I can do is repeat that no such intention regarding boycott and the severance of trade relations and so on with a withdrawing member was in the minds of the Bretton Woods Conference when article XI was adopted. It would be most extraordinary, I think that any country would have contemplated or that experts of any country would have contemplated inserting into a document of this sort a provision that would have enabled other countries to boycott it, to boycott their own country, if their own country was the one to find themselves in difficulty. In any discussions I heard, the question of the boycott, the use of article XI for the purpose of boycott, which is the thing that is causing your preoccupation, was not so much as mentioned.

Q. Is it generally understood that any member could withdraw just by sending in his resignation? You gave that answer to Mr. Bracken.—A. I should like to find the article.

Mr. BREITHAUP: Page 34, article XV, section 1.

The WITNESS: Yes, article XV, section 1, right of members to withdraw.

Any member may withdraw from the fund at any time by transmitting a notice in writing to the fund at its principal office. Withdrawal shall become effective on the date such notice is received.

By Mr. Irvine:

Q. I take it that there will be no difference between a non-member nation who never signed the agreement and one which had found it necessary to withdraw, so far as its dealings with other nations are concerned?—A. That is right, except such differences as may arise out of the detailed provisions of schedule D, settlement of accounts with members withdrawing.

Mr. Low: Yes, and the contribution of the bank and so on.

The WITNESS: And the financial provisions. The fund will have to pay withdrawing countries money.

Mr. QUELCH: You also made a difference there this morning when you were dealing with article XI. You showed there might be a difference. You mentioned Spain on the one hand and Britain on the other hand, where there would be black market operations. I will admit I have not quite grasped your argument in that regard as yet.

Mr. IRVINE: That is one that is still in the agreement, is it not? Otherwise there could not be any black markets.

Mr. BLACKMORE: Mr. Chairman, of course, the witness is quite aware that when the courts come to interpret the law, they frequently put an interpretation on the law which the lawmakers did not intend. Bearing this in mind—

Mr. DION: No, no.

Mr. BLACKMORE: Am I speaking too loud? It must be of first importance to know who has the right to interpret these rules or these articles. Who will be interpreting article XI?

The WITNESS: Well, in relation to the problem that is worrying you, article XI will be interpreted by an authority external to the fund.

By Mr. Blackmore:

Q. Who, for example?—A. I am trying to find it. I will find in a moment the exact authority. Would you look, Mr. Blackmore, at article XVIII.

Mr. Low: Page 36.

The WITNESS: Page 36, paragraph (c):—

Whenever a disagreement arises between the fund and a member which has withdrawn—

Which is the case you have taken.

—or between the fund and any member during the liquidation of the fund, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators, one appointed by the fund, another by the member or withdrawn member and an umpire who, unless the parties otherwise agree, shall be appointed by the President of the Permanent Court of International Justice or such other authority as may have been prescribed by regulation adopted by the fund. The umpire shall have full power to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

By Mr. Low:

Q. The regular procedure of arbitration?—A. Yes. If you would allow me to make this observation, Mr. Blackmore, it does seem to me that in your question you are conceiving of the fund as something which is separate and distinct from the countries that are members of it. You are conceiving of it as something which is apart, which has an independent existence and independent motives of its own. Now, the fund consists of the countries which are members of it. All power in the fund is vested in the board of governors which consist of one representative of the government of each country which is a member of

the fund. That board of governors has authority to delegate certain of its powers, not all of them, to the executive directors, who again are representatives of governments. Then you have the staff which is responsible to the executive directors, and through the executive directors to the board of governors. So that when you think of the fund taking this action of the type you fear, in fact you are thinking of the whole community of nations gathered together in the fund as taking such action.

Mr. BLACKMORE: Mr. Chairman, what I suspect will happen after this fund gets nicely on its way will be this. It will begin to employ deputies. We think in terms of governments today. We know we have our cabinet ministers and in due time we get deputy ministers, and the governors of the country are the deputies, and it is not very long before the departments of the deputies tell the new ministers what they are going to do and how they are going to do it. This goes on regularly from government to government.

The CHAIRMAN: I would ask, Mr. Blackmore, that you read again carefully in the quiet of your own office, section 5, subsection (f), and I think perhaps you will not worry so much.

Mr. BLACKMORE: We will read it right here.

Mr. COLDWELL: I was going to ask Mr. Low if that has been his experience.

Mr. Low: I will tell you off the record.

The CHAIRMAN: He declines to answer, on the advice of counsel.

Mr. BLACKMORE: I am free to say it has been.

The CHAIRMAN: Mr. Low, have you any further questions? Time is getting on.

Mr. Low: Yes, to complete the record of the background that Mr. Rasminsky so ably started the other day. These questions, Mr. Chairman, can be answered very quickly and just in a few brief words.

By Mr. Low:

Q. In the first place, Mr. Rasminsky, you said in your statement that you gave thought to the two proposals, the clearing house union and the international stabilization fund proposals in 1943. Would you mind telling us in what capacity you gave that thought to them, whether privately or as a representative of some organization such as the bank or what?—A. Well sir, I do not know in what capacity one thinks. I suppose that had I not been at that time connected with the Foreign Exchange Control Board, I would not have been giving thought to the problem. At the same time I do not think it would be strictly accurate—at any rate I do not know what significance the statement would have, to say that I gave thought to it in my capacity as chairman alternate, if I was at that time, of the Foreign Exchange Control Board.

Q. That will probably come out in another question. The second question in the series is this. You spoke of a Canadian group having made a proposal. Could you tell the committee who composed the group and were they appointed by somebody or was it a group that got together, of experts with the inverted commas that you mentioned the other day, or what was it?—A. They were in the main the people who at the request of the government subsequently attended the Bretton Woods Conference in July, 1944. You will find those names set out in the print on page 6.

Mr. COLDWELL: It is not unusual, is it, for groups of persons who are interested in a particular topic, particularly around Ottawa, to meet informally and to discuss a matter of international concern, or something of that kind. If I may say so I myself have sat in on sort of informal discussions of these

things with a view to trying to find ways and means to deal properly with some particular problem. I think probably that is how it has occurred although I knew nothing about it.

Mr. Low: Actually the reason behind this question, Mr. Chairman, is simply because one hears so many stories about how a thing gets started and in order to set the record right that was my only motive in asking that, to set the record right so that no one can bring in some tall stories of how this thing did get started.

The CHAIRMAN: Dr. Mackintosh, who will be called later, will make a statement in that regard now.

Mr. MACKINTOSH: I think there is nothing obscure about the matter. As Mr. Rasminsky has explained there were proposals of a very tentative nature put forward in draft form by the British government as early as 1942. Mr. Rasminsky and I discussed those in London on a purely unofficial basis. They were not put forward as British government proposals but as a draft proposal which the British government wished to have discussed among experts.

As you know there was then a proposal put forward by the United States. Again that was discussed among officials. I cannot recall at the moment how many Canadian officials discussed that in Washington. I know at one session both Mr. Rasminsky and myself and one or two others were there. This thing was being proposed and from one side and the other and we were working on it as representatives of the government, not for the purpose of negotiating or agreeing but for the purpose of studying. Out of that study there came certain proposals which were purely those of experts but which the Canadian government thought worth while publishing not as its proposals but as a general contribution to the development of this idea. As the discussions went on during the Bretton Woods Conference as Mr. Rasminsky has said pretty much the same people were involved in the technical side of the delegation at that conference.

By Mr. Low:

Q. There is just one other thing that comes out of that. The Canadian group of experts, Mr. Rasminsky stated, did put out a proposal of their own as an alternative to the two that were already in existence, and as I recall it that later became the working paper for the Bretton Woods Conference?—A. No, I am sorry. What became the working paper for the Bretton Woods Conference was not the proposals put out by the Canadian experts in June, 1943, but it was a paper called a Joint Statement of Experts for an International Monetary Fund which was put out in April, 1944.

By Mr. Blackmore:

Q. By whom?—A. That was a statement that was evolved as the result of prolonged discussions between the United States and the United Kingdom in which the Russians and others participated. Some of these discussions consisted of groups of representatives of several countries. Some consisted of bilateral discussions between officials of two countries. As I said yesterday or the day before the statement had been agreed on and published simultaneously in Washington, London, Ottawa, and I think in Moscow, still on the same official and non-committal basis.

Q. What I am interested in finding out is who initiated this joint statement. Did it come from Washington, London or from Canada?—A. The joint statement of experts?

Q. Yes, somebody had to prepare it, somebody had to decide to prepare it.—A. The joint statement of experts was in the main worked out—in fact,

one can say in its final form it was entirely worked out—by negotiations between the United Kingdom and the United States?

Q. At whose instigation—A. I would assume as a result of a mutual desire to see whether some common ground could not be found between the clearing union proposal of the United Kingdom experts on the one hand and the proposal of the American treasury experts for an international stabilization fund on the other hand.

Q. What I have in my mind is this, which the witness will probably be able to answer. Apparently the Morgenthau plan or White plan, as it was called, was submitted to the British government in April, 1943. At least, that is the first time we heard of it. Evidently it was not intended that this plan should be published but the British published it in London, and Mr. Morgenthau expressed great annoyance because of that. There was a rather elaborate press despatch based on his annoyance which was published in all Canadian papers on April 9, I think. I am speaking entirely from memory.

Mr. COLDWELL: What does that signify?

Mr. BLACKMORE: What would you imagine it signified if the thing is published by the British and Mr. Morgenthau is annoyed about it? What would it signify?

Mr. COLDWELL: That he was annoyed.

Mr. BLACKMORE: Does it not signify that the United States had originated it and submitted it to the British intending to have the thing kept quiet? The British let the thing be known.

The CHAIRMAN: After all this committee is not too much concerned with that. We have a bill before us. We are pressed for time and I would ask you to be good enough to take some other occasion to satisfy your curiosity.

Mr. STEWART: I think Mr. Blackmore may get the answer to his question from the preface to the proposals for an international clearing union, the British White Paper.

Mr. BLACKMORE: I think it has a very important bearing on the whole question.

By Mr. Blackmore:

Q. May I ask the witness this question? He pointed out this morning or yesterday—I think it was this morning—a number of clauses were added at Bretton Woods which apparently had not been considered by either of the sets of experts before. Does the witness remember naming those?—A. Yes, I do.

Q. What I am wondering is where did those clauses come from? Who suggested them?—A. They came from the conference. It became obvious that the skeleton of the Joint Statement had to be filled out in various directions and proposals were submitted by more than one country. I am sorry, but I would not be able to identify them. In fact, I do not think it would be possible going through this document to say with regard to any clause—certainly it would not be possible for me to say with regard to any particular clause of the document—who was the author of the clause or what country was the author of the clause.

Mr. COLDWELL: Here is a statement of the proposals for an international clearing union dated April, 1943. In the note which precedes it it says this:—

In Parliament on the 2nd February—
that will be February, 1943—

the Chancellor of the Exchequer mentioned the need, after the war, of
“an international monetary mechanism which will serve the requirements
of international trade and avoid any need for unilateral action in competi-
tive exchange depreciation . . . a system in which blocked balances

and bilateral clearances would be unnecessary . . . an orderly and agreed method of determining the value of national currency units . . . We want to free the international monetary system from those arbitrary, unpredictable and undesirable influences which have operated in the past as the result of large scale speculative movements of short term capital."

That was a statement made in the British Parliament on the 2nd of February, 1943, so it shows it was in a good many people's minds at that particular time.

Mr. BLACKMORE: May I ask one other question on the technique? From my reading of the British proposals of that time I recall that a new type of money or currency called *bancor* was suggested, and in the White plan a new type of currency called *unitas* was suggested, and in each case these would be created units of money. They would not be money that was necessarily contributed by anybody. I did not notice any evidence of any newly created money in the Bretton Woods plan. Could the witness give us any idea why the plan apparently thought worth considering by both the United States and Britain should not have been embodied in Bretton Woods?

The WITNESS: I think the answer to that is after more mature reflection it was decided that new wine would perhaps be more palatable if it came out of an old bottle than if it came out of a new bottle.

By Mr. Blackmore:

Q. If we could only learn what the new wine is.—A. The new wine is the general proposals of Bretton Woods. The concept of an international currency, *bancor*, was rather different from the concept of *unitas*. *Bancor* was a genuine currency unit.

Q. Based upon goods and services, was it not?—A. Based upon goods and services. *Unitas* was merely a bookkeeping device.

Q. Based upon gold, was it not?—A. A unit of account.

Q. Based upon gold?—A. Related to gold, the value of which was, under the original White plan, related to gold. As I indicated yesterday the discussions showed that to obtain acceptance of the proposals along these lines it would be necessary to abandon the clearing union concept for the stabilization fund or exchange fund concept. The main factor in that, and the one that I laid most stress on yesterday, was the virtually unlimited commitments that creditor countries were obliged to assume under the *bancor* concept. Another objection to it though was that it was a new-fangled device, something that people were not used to. In point of fact there is no essential difference between the creation of an international currency unit and the creation of a monetary fund which is made up of national currency. There is no essential difference whatever. It is only the form of the transaction which differs according as the overdraft principle or the deposit banking principle is used, but there is no essential difference between the two.

Q. Did I understand the witness to say that the clearing union idea was found impracticable in Bretton Woods? That was the idea the British wanted above all things, was it not?—A. The clearing union proposal was put forward by official experts and was never endorsed by the United Kingdom government, so neither I nor anyone else is able to state that the United Kingdom government wanted to have the clearing union proposal. I did indicate yesterday that in the course of these discussions the conclusion was reached, and reached by the authors of the clearing union proposal as well as others, that it would not be possible to get sufficient acceptance for the clearing union proposal to make that practical politics.

The CHAIRMAN: It is now practically 9 o'clock; is it the wish of the committee that the witness should make his presentation with regard to the bank?

Agreed.

The WITNESS: Mr. Chairman, I will be quite brief on the bank because it is much more orthodox in form and less novel in conception than the fund. It does not raise the same problems of adherence and non-adherence to the gold standard or any particular commitments which are given by member countries other than financial commitments.

I do not propose to spend any time referring to the need for the countries which are able to do so to assist in the task of immediate post-war reconstruction and rehabilitation; that I take to be common ground. The proposal is for an international investment bank which shall have an authorized capital of \$10 thousand million and an issued capital of \$9,100,000,000, which shall be subscribed by the countries which were represented at the Bretton Woods Conference in the amount set out in schedule "A" of the articles of agreement of the bank. That schedule will be found on page 65 of the Print.

The loans made or guaranteed by the international investment bank are to be used for productive purposes, to increase the productivity of the borrowing countries. It is expected that the great majority of the loans made by the bank will be what may be referred to as project loans; that is to say that they are to be associated with some given project of capital development, and they are not to be general purpose loans to be used for the purpose of increasing the general imports or the imports of consumption goods of the country in which the firm doing the borrowing or which is itself doing the borrowing is located.

All loans made by or guaranteed by the bank must bear the guarantee of the government or the central bank of the country in which the borrower is located, so that there is assurance that no borrowing will take place through this instrument without the desire of the government of the country concerned. There is no intention in creating the international investment bank of supplanting the private capital market. It is recognized, however, that certain projects, desirable in themselves, may not be sufficiently remunerative over a long period of time to justify the rate of interest which would be charged if the loans were placed through the private capital market.

The capitalization of the bank, as I say, consists of the national subscriptions as set out in schedule "A". The Canadian quota is \$325,000,000. Of this quota 20 per cent is payable or callable at once. The arrangements regarding the payment of quotas are set out in article II, section 5, of the articles of agreement for the bank, page 48 of the Print. You will see there that 20 per cent, or \$65,000,000, is payable or subject to call at once and the remaining 80 per cent is subject to call under other circumstances which I shall describe in a moment. Of the 20 per cent, or \$65,000,000, which is payable at once, 2 per cent, as you will see in section 7, (1), of the same article, page 4—2 per cent is payable in gold or United States dollars, 2 per cent being in our case \$6,500,000, and when calls are made the remaining 18 per cent is payable in Canadian dollars. The remaining 18 per cent is \$58,500,000. The other 80 per cent, which is not payable at once, remains as a guarantee fund to protect the outstanding obligations of the bank.

The bank is authorized to engage in three types of transactions: in the first place, it is authorized to make direct loans out of the 18 per cent subscription which I have previously mentioned—that is out of the original 20 per cent which is paid in, 2 per cent of which, however, will have been paid in in gold. The bank may make direct loans to countries out of that 18 per cent; such loans are in the nature of tied loans. The Canadian dollars which we will have contributed, if this agreement is adhered to, in the amount of \$58,500,000, can be used only for the purpose of purchasing goods in Canada.

The second main type of transaction that the bank can engage in is the guaranteeing of loans which are placed through the private capital market. The bank may guarantee such loans, charging a commission for its guarantee.

The third main type of loan that the bank may make is also a direct loan but a loan which is made out of funds raised by the bank through the issue of its own debentures on the private capital market.

Mr. MICHAUD: That is No. 2.

The WITNESS: Yes, that is right, I am sorry I have reversed the order.

In the case of guaranteed loans and in the case of loans made by the bank out of its own resources raised through the issue of its own debentures—that is the loans that are described in article IV, section 1 (a), (ii) and (iii)—it is a condition of such loans and of the granting of such guarantee that the loan proceeds should be untied. That is to say that if the bank issues its debentures, say in the United States of America, or if the fund guarantees a loan which is placed in the United States of America, it is a condition of the bank participating in such transactions that the borrowers shall be free to spend the United States dollars in any part of the world. The expenditure of the funds is not tied to the United States. Suppose that China is a borrower and finds that she wishes to make her expenditures or part of her expenditures in Canada or in the United Kingdom or in any other country, then no restriction may be placed on such action.

It is, therefore, to be expected that the expenditure of such funds might serve as an important balancing item in international accounts; that they would serve as a direct stimulation of the exports not only of the country in which the capital was being raised, but also of other countries, although naturally if one traces this transaction further the fact that the other country has come into the possession in that way of foreign exchange would enable that country, if it wished to do so, to increase its imports from the country in which the loan was originally issued.

Article III, section 4, sets out the conditions on which the bank may guarantee or make loans, and I should like to draw those conditions particularly to the attention of the committee. The first I have already mentioned, that if it is not a government itself which is doing the borrowing then the member or central bank or comparable agency fully guarantees repayment of the principal and payment of the interest and other charges of the loan. The bank must be satisfied that in prevailing market conditions the borrower would not otherwise be able to obtain the funds on reasonable conditions; a competent committee must have recommended the proposal; the rate of interest and other charges must be reasonable; and the amortization payments must be appropriate to the project. The bank must pay due regard to the prospects that the borrower will be in a position to meet its obligations under the loan. The bank is to receive suitable compensation for its risk, and as I have already indicated, loans made or guaranteed by the bank, except in special circumstances, are to be for the purpose of specific projects of reconstruction or development. Before granting its guarantee issuing its own obligations—the two transactions that give rise to untied loans—the permission of the country in which the moneys are being raised is required. That is to say, that the bank cannot issue its own debentures in Canada without the permission of the Canadian government, nor could the bank guarantee a privately-placed loan in Canada without the permission of the Canadian government.

By Mr. Irvine:

Q. Might I ask you this, are these funds raised on debentures to be spent in the country in which they originated?—A. No, sir. The only funds which are tied are the original capital subscriptions, the original 18 per cent in

national currency. I come now to the remaining 80 per cent. The remaining 80 per cent acts as a surety fund or a guarantee fund to guarantee holders of the obligations issued by or guaranteed by the bank against loss. The uncalled capital can be called up only for the purpose of meeting such losses; it cannot be called up for any other purpose. If losses are incurred in consequence of the bank's operations or if losses are incurred in consequence of any factor then the calls on members are to be uniform and proportionate. That is to say that the fund would call up let us say 1 per cent of its uncalled capital and each member would be called upon to pay that much of its uncalled capital. Such calls would be made good in the currency required to meet the outstanding obligations of the bank, in the currency named in the contract which had gone into default, or in gold.

The bank is to be paid a commission of 1 to 1½ per cent for its guarantee and for the risk that it undertakes on direct loans. These commissions are to be placed in a special reserve fund and after a period of time would permit the bank to make good out of its own resources on defaulted loans. It would be expected that if the defaulted loans over a long period did not exceed more than something like one in five, or one in six (which would be quite a high rate of mortality) the bank could make good out of its own resources.

The main new idea of this proposal is the separation that it makes between the export of capital and the risk involved in exporting capital. It is recognized that only certain countries would be in a position to export capital after the war, namely the countries which have a surplus on their own current account balance of payment. But at the same time it is recognized that the export of capital and through that the redistribution and increase in the productive power of the country which is importing the capital are in the interest of the generality of nations. It is therefore thought right that the generality of nations should share some of the risks involved in such capital export.

That ends the statement I propose to make, Mr. Chairman.

By Mr. Fraser:

Q. That 1½ per cent charge for loans; is that paid in United States currency, in gold, or in the currency of the country borrowing; and, is it paid yearly, or how is it paid?—A. May I ask to which clause you are referring?

Q. You made that in your statement.—A. Oh, yes.

Q. That there was a charge of 1 or 1½ per cent.—A. One to 1½ per cent; that would be paid either in gold or in the currency in which the loan is denominated.

Q. Well now, you say "either"; is the country given any choice?—A. Yes, at the option of the country.

Q. Then, you have used this phrase quite a number of times; will be able to after the war—You mean after the first of January, do you not?—A. I really mean after the establishment of the bank.

Q. You mean, after the first of the year?—A. Yes.

Q. You have used that term a number of times to-day and yesterday.—A. Yes, the discussion of these matters started before the war was ended.

By Mr. Irvine:

Q. Will the loans made out of that portion of the banks resources which comes from the selling of debentures in any nation be extended for the purchase of goods, let us say, in Canada if the investments are made, if the debentures are sold in Canada? Let us say they were made in Timbuctoo.

Mr. Low: Where's that?

The WITNESS: You ask whether—

Mr. COLDWELL: That is down in darkest Africa.

The WITNESS: You ask whether if Timbuctoo arranges for a loan through the issue of debentures pursuant to this provision of the bank the proceeds will be used in Canada if the loan is floated in Canada?

Mr. IRVINE: Will the amount of money represented by these debentures be spent in the United States?

The WITNESS: It is a condition of the issue of the debentures that no restrictions must be placed on the country in which the moneys are spent.

Mr. IRVINE: I understand that; but supposing that certain goods were required from Canada, would the money raised in Canada by these debentures go to pay for those goods in Canada?

The WITNESS: I am awfully sorry, I do not understand your question. Will you mind repeating it.

Mr. IRVINE: I am not sure that I can make it any plainer.

The WITNESS: Perhaps you could state in some different way.

Mr. IRVINE: I understand that there is no restriction on the investment of that fund, it may be invested I presume in any part of the world. But the investment of the fund does not mean much; it means that you will probably be purchasing all of your capital goods in some other country. I want to know whether if the debentures, the money from the debentures sold in Canada, will be expended in capital goods shipped from Canada to the country where the investment is being made.

Dr. MACKINTOSH: If I might, Mr. Chairman, I would try to answer that. I think what Mr. Rasminsky said was that there was no restriction placed, he did not mean on the investment. The situation is that if the bank wishes to issue debentures and sell them to Canadians in Canada it must have the consent of the Canadian government. The Canadian government having given its consent to debentures being issued, no restriction can be placed on where the money is spent with respect to that type of loan.

By Mr. Fraser:

Q. There is one more question I was going to ask; it is not contemplated, I assume, that very much of the 20 per cent will be used to make loans, rather this bank will operate in the other manner, that of guaranteeing and negotiating with governments and so on for permission to issue debentures; because 20 per cent on \$9,100,000,000 is in world economy a relatively small amount. So I presume that normally this bank is expected to guarantee loans rather than actually to expend out of capital, from its capital make loans to countries; would consist of guaranteeing, and also making loans of funds raised through the issue of its own debentures. Those two methods are the two untied of is that right?—A. It is certainly the case that the bulk of the bank operations transactions.

Q. I was going to ask you this next; will the bank exercise any influence in regard to the places where loans are made? What I have in mind is this, that I think everybody agrees that one of the problems that faces the world in order to get rid of the high production that we are now able to undertake we need as rapidly as possible to raise the standards of living in the more backward countries. And now, is there anything that would enable this bank to advise the making of capital expenditures in backward areas in order to raise the standard of life there so that we may sell our goods and receive goods in exchange or raise the general standards of living through the world?—A. If you will look more closely at the article on purposes, you will find that among the purposes of the bank is "to assist in the reconstruction and development of

territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries."

Q. I know that is there, but how will that be done? Is there any method contemplated of achieving that very desirable objective; which also you recall is in the charter of the United Nations.

Mr. Low: And, in the fund.

Mr. COLDWELL: And, in the fund.

Mr. Low: It is the expression of a very high purpose.

Mr. COLDWELL: Yes. Is there anything? I have not seen anything, that is why I am asking this question.

Dr. MACKINTOSH: If I may give an opinion, I do not know whether it would be of help or not. I would say one thing; there is nothing in the discussions on the bank, I think, almost nothing, that took as much time as the re-phrasing of a number of these clauses so as to hold what was felt to be a balance between the reconstruction demand of devastated Europe and the demands of other countries—America, Asia and so on—for development; and so I think you can rely on there being a considerable degree of initiative from these countries who seem very anxious to improve their conditions. The second thing is that while it is stated briefly here, there is provision for expert committees by the bank. It is proposed that those should include not merely finance people who look at loans but technical advisers on projects such as you have envisaged. I think there is a third point and that is that those who participated in this discussion looked very extensively to organizations like F.A.O. and other international organizations to bring forward projects in what is sometimes called the idea stage and which the bank would assist in getting beyond that through its expert committees.

But there was very great attention and interest shown in that type of development line which is often typified by the proposed Yangtse River development, that kind of thing.

Mr. COLDWELL: The next question I am going to ask is this. It seems to me that these proposals, the stabilization fund and this bank, are proposals that look forward to a better and more co-operative world. That is the basis of them. What is the relationship contemplated between Bretton Woods as we now call it, the fund and the bank, and the United Nations Organization?

The WITNESS: Perhaps I had better take that question.

Dr. MACKINTOSH: Mr. Rasminsky can answer that.

The WITNESS: The International Monetary Fund and the International Investment Bank both make provision in their articles of agreement for relationship with the general international organizations. In the fund proposal on page 29, article X:

The fund shall co-operate within the terms of this agreement with any general international organization and with public international organizations having specialized responsibilities in related fields.

It goes on to say:

Any arrangement for such co-operation which would involve a modification of any provision of this agreement may be effected only after amendment to this agreement under article XVII.

And there is a similar provision for the bank. Since the fund and the bank themselves will have sovereign bodies consisting of governments, one cannot state definitely at this stage what those governments will decide. But it is

certainly contemplated in the discussions which have taken place at London in the executive committee and the preparatory commission of the United Nations Organization that the fund and the bank shall be specialized agencies to be brought into relationship with the United Nations Organization along with the Food and Agriculture Organization and the International Labour Organization and some others.

By Mr. Coldwell:

Q. Under the social and economic council.—A. Under the social and economic council.

Q. I wanted to bring that out.—A. Yes.

The CHAIRMAN: I might say, gentlemen, that it is highly inconvenient for Dr. Mackintosh to spend much time with this committee; and if it is possible that you could exhaust your questions so far as he is concerned to-night, we should very much appreciate it.

By Mr. Hazen:

Q. In this agreement Canada contributes six and a half million dollars in gold to the bank and under the other agreement Canada contributes \$75,000,000 to the fund. Where does this gold come from? Does it come from the reserves in the Bank of Canada?—A. At the present time the great bulk of the monetary gold reserves are held in the Minister of Finance Special Exchange Fund Account which is administered by the Foreign Exchange Control Board. They are held in what is referred to as "The Exchange Fund".

The CHAIRMAN: Section 5 of the bill will give you your answer to that, Mr. Hazen.

By Mr. Hazen:

Q. How much gold is there in that exchange fund at the present time?—A. I am not authorized to disclose that.

The CHAIRMAN: Section 5 of the bill, Mr. Hazen, will indicate where the money is to come from.

By Mr. Hazen:

Q. What method will be used to transfer the Canadian currency to the bank and also to the other fund, the International Monetary Fund? What is the procedure? How do you transfer that money, or that currency?—A. It will be for the government to decide at the time what procedure will be used. The government will be under an obligation to pay to the fund, let us say, \$225,000,000 and \$75,000,000 worth of gold. The government will obtain the gold by taking the gold out of the exchange fund. There are certain transactions connected with that which are in the nature of washout transactions. The government would actually purchase the gold from the exchange fund account, and the exchange fund account would use the Canadian dollars received from the government to repay the advance which has previously been made by the government to the exchange fund account to enable the exchange fund to acquire the gold. The simple way of looking at it is that the government takes the gold out of the exchange fund account. The government then has to pay \$225,000,000 Canadian dollars or the Canadian dollar equivalent of \$225,000,000 U.S. to the fund. It is authorized under this measure to borrow money. The question of whether it should borrow from the Bank of Canada or whether it should borrow from the market is a question that would be decided in the light of the general conditions prevailing at the time.

One method of doing it would be for the government to instruct the Bank of Canada to credit a certain sum, \$225,000,000 to the International Monetary Fund on its books and the government give the Bank of Canada its own obligations to that extent. There is a provision in the articles of agreement under which the fund could substitute for any cash to which it was entitled, non-interest-bearing securities of the government, so that the government might be directly obligated to the International Monetary Fund to the extent of its subscription until the Canadian dollars were actually required by the fund, instead of being indirectly obligated through borrowings from the Bank of Canada, or the borrowing might take some other form.

By Mr. Quelch:

Q. When a country ceases to be a member of the fund, it automatically ceases to be a member of the bank within three months. What happens after that in so far as the repayment of loans is concerned? If it is not able to repay its loans upon maturity, can they be renewed?—A. In general, Mr. Quelch, the arrangements regarding withdrawal from membership are that any one withdrawing from membership remains liable for the obligations that he had when he was a member, but does not become liable for any additional obligations.

Q. You mean he cannot borrow any more? A non-member would not be able to borrow from the bank?—A. A non-member cannot borrow from the bank.

Q. If it already has a loan and when the loan matures it is unable to pay it, is it renewed or just left as a dishonoured obligation? Just what happens?—A. I do not think that that is specifically provided for, Mr. Quelch. I think it is a little difficult to see how that could be provided for in a document of this sort, to write into a constitutional document a provision that a dishonoured loan would be extended a renewal.

Q. You do not call a loan that has to be refunded a dishonoured loan, surely. It is quite a common practice to refund loans on maturity.

The CHAIRMAN: I take it that your point is this, Mr. Quelch: is there an acceleration clause for immediate payment of a loan of a country that withdraws?

Mr. QUELCH: Or does it remain as it was?

By the Chairman:

Q. Or does it remain as it was?—A. There is no provision for acceleration of maturity. I am sorry, I thought you were asking the other.

By Mr. Quelch:

Q. I am asking the other one too. If a nation withdraws in 1945, at the end of 1945 and it has an obligation maturing at the end of 1946—I know this would not be the case but nevertheless, suppose it is; one year hence—and at the end of 1946 it is not able to meet that loan; normally it would renew it or refund it. But will it be allowed to do that after it has withdrawn? And if it is not able to refund it, what will be the consequences?—A. Well, I think that is an ordinary question of creditor judgment, Mr. Quelch, as to what one does in that case.

Q. I was just wondering whether or not the bank would be absolutely debarred from having any transactions with a nation once it had withdrawn and once the note became overdue, whether it would be allowed to run as a debt in default or whether they would keep it in good standing by renewing it?—A. Well, I am quite certain that it would be open to the bank, even if not provided for in this agreement, to extend or renew outstanding obligations.

Q. There would be no special pressure put upon the nation if it withdrew, and the treatment of a nation that was expelled would be the same as the treatment of one that had withdrawn?—A. As regards what?

Q. As regards repayment of a loan.

Dr. MACKINTOSH: There is no provision for sanctions of any kind that I know of. I presume the bank would be guided by whether it thought it could get any of its money back by extending the loan or whether it thought it was really a bad loan. There is no special provision for that.

By Mr. Quelch:

Q. The fund and the bank are immune from all judicial process in any court in any country. Does the same immunity stand in so far as the International Court of Justice is concerned?—A. I should like to be certain that I understand that question. Would you refer to the clause?

Q. The clause on immunity.—A. Yes?

Q. In the fund it is article IX, section 3, immunity from judicial process:

The fund, its property and its assets, wherever located and by whomsoever held, shall enjoy immunity from every form of judicial process except to the extent that it expressly waives its immunity for the purpose of any proceedings or by the terms of any contract.

Is that equally true of the International Court of Justice?—A. I would interpret "every form of judicial process" to include process before the Permanent Court of International Justice, yes.

Q. I was just wondering what the hook-up would be between this and the United Nations, if it is considered one of the special agencies?—A. I said in reply to Mr. Coldwell that until it is created one cannot say that this will be a special agency brought into relationship with the United Nations Organization. One cannot say that with absolute assurance because it is not for oneself to decide.

Q. But you can definitely say— —A. I can say, if you will permit me to finish this answer, that it is in the minds of everyone whom I know, who is concerned with these questions, that the fund and the bank should be brought into relationship with the United Nations Organization.

Q. You can definitely say too that it will be immune from any action through the International Court of Justice?—A. I understand that the whole question of immunities of these specialized agencies is at the present time being given consideration at the preparatory commission meeting in London. But I cannot go any further than that and say what particular immunities will be given to other organizations.

By Mr. Blackmore:

Q. Why were such apparently preposterous immunities considered necessary? There is only one thing that could have been done and that is extend the immunities to heaven.

Mr. COLDWELL: Is it so unusual when you consider that in our own governments the Crown has immunity? These are associations of sovereign nations whose Crowns enjoy these immunities. I imagine at the time this was drawn no decision having been reached they gave them the same immunities as the Crown has in our own constitution and jurisdiction. As Mr. Rasminsky says the question of these immunities is being considered because there are a number of specialized agencies being spoken of, and some have already been set up although not brought into relation with the united nations because the United Nations Organization has not been definitely settled yet.

Mr. Low: It is unfortunate in that respect that we cannot propose some amendments in that regard.

Mr. COLDWELL: You cannot amend an international agreement.

The WITNESS: Mr. Chairman, I am informed that the privileges accorded to the fund and the bank are in no respects more extensive, and in certain

respects definitely less extensive, than the privileges which Canada has agreed to extend to such organizations as the Food and Agricultural Organization and the United Nations Organization, or which it has actually extended for many years to the international labour office in Montreal. Moreover the privileges to be accorded are considerably less extensive than those enjoyed under international law to the accredited representatives of foreign states in Canada. To illustrate, the officers of the fund enjoy immunity from process only in respect of acts performed by them in their official capacity and even then the fund may waive immunity, and the same observation is applicable to the bank.

I should like to add this other observation on these immunities, that the country which is most affected by these immunities, for whom these immunities have the greatest significance is, of course, the country in which these two institutions are located, namely the United States of America. The Congress and Senate of the United States of America have decided it would be appropriate to accord these immunities to the fund and the bank.

By Mr. Quelch:

Q. In the event of a nation failing to meet certain charges levied under the fund then I suppose the fund would be taking legal action against the government. How would they enforce payment of charges if they were not met?—

A. I would say that merely becomes a matter of the relations between the member and the fund just as the League of Nations in the final analysis was not able to enforce collection on the relatively very small number of countries that got into arrears on their contributions, in the same way I suppose the fund and the bank would not be able to enforce collection. In other words, the debtor is in the driver's seat.

Mr. FRASER: Section 9 of article 4 on page 54 says:

Every security guaranteed or issued by the bank shall bear on its face a conspicuous statement to the effect that it is not an obligation of any government unless expressly stated on the security.

In other words, a country might have the security and right on its face it is not guaranteed by that country. It buys goods with that security and it is not liable.

Mr. COLDWELL: It is guaranteed by the bank, is it not?

Mr. FRASER: Yes, but then you cannot hold anybody responsible.

The WITNESS: You hold the bank responsible.

By Mr. Fraser:

Q. But no country is responsible.—A. If you say all countries being responsible therefore no country is responsible, if you wish to equate those two things, the statement is accurate, but this whole institution, this whole concept—

Q. It all falls back on the fund?—A. —is based on an entirely different hypothesis.

The CHAIRMAN: Mr. Blackmore, you requested that might ask some questions of Dr. Mackintosh.

Mr. BLACKMORE: There are several I want to ask Mr. Rasminsky first.

The CHAIRMAN: I wonder if you might ask Dr. Mackintosh what questions you want of him to-night because he cannot be here to-morrow.

Mr. BLACKMORE: It will take more time. We have only three-quarters of an hour.

The CHAIRMAN: If the committee is willing we will have three-quarters of an hour and surely you are not going to ask questions for more than three-quarters of an hour.

Mr. BLACKMORE: I should not be surprised when I get going. There are several things I want to know from Dr. Mackintosh.

The CHAIRMAN: Do the best you can.

Mr. BLACKMORE: I want to ask Mr. Rasminsky some questions. If Dr. Mackintosh cannot come until to-morrow night let him come then.

The CHAIRMAN: We cannot possibly conduct the work of this committee in an orderly fashion if all members of the committee are going to use the committee in that fashion. You have asked that Dr. Mackintosh should appear. He is here. We are offering you a reasonable time. Why not take advantage of the offer and do your best? Our time is so limited.

Mr. BLACKMORE: I know. I asked that Dr. Mackintosh be here, and I had no idea at all that he would be here to-night.

The CHAIRMAN: I did not either, but he is here.

Mr. BLACKMORE: Why expect me to ask questions without any preparation, and why expect him to answer them without any preparation?

The CHAIRMAN: Dr. Mackintosh is ready. If you are not ready—

Mr. BLACKMORE: I can be ready in a hurry, but I want to ask Mr. Rasminsky more questions. I should like to know regarding these immunities. I gathered from what he said—

The CHAIRMAN: Order, please.

Mr. COLDWELL: May I suggest two reasons? One is that I rather think Mr. Rasminsky must be pretty wearied mentally with the long barrage of questions.

The WITNESS: Not at all; this has been most exhilarating. I am quite prepared to carry on.

Mr. COLDWELL: The second thing I was going to say is we are all anxious to give Mr. Blackmore the amount of time that he requires but I think Mr. Blackmore might have a little consideration both for the committee and for Dr. Mackintosh and utilize the three-quarters of an hour that we have now.

Mr. BLACKMORE: I think since I have asked that Dr. Mackintosh be a witness that I ought to have the right to choose the time of questioning. If he comes tomorrow, which would be the ordinary time, I will be prepared. I should like to have plenty of time. I have some questions I want to ask Mr. Rasminsky while we are still questioning him.

By Mr. Blackmore:

Q. I gathered from what Mr. Rasminski said a minute ago that these immunities applied only in the official performance of the duty of these representatives of the fund. I wonder if Mr. Rasminsky would tell us in what phrase or clause that is stipulated in article 9? —A. Yes, I will be very glad. It is article IX, section 8:

Immunities and privileges of officers and employees. All governors, executive directors, alternates, officers and employees of the fund (1) shall be immune from legal process with respect to acts performed by them in their official capacity except when the fund waives this immunity.

Q. What about all the other clauses? It does not say anything like that under section 3. A. The remark would not be relevant. Section 3 refers to the fund itself and the fund holds property only in its official capacity.

Q. Do we gather then that these people are immune only in their official capacity?—A. That is the statement in the text.

Q. Take (c) of number 9.

(c) No taxation of any kind shall be levied on any obligation or security issued by the fund, including any dividend or interest thereon, by whomsoever held.

Then, (b) of section 9 is:

- (b) No tax shall be levied on or in respect of salaries and emoluments paid by the fund to executive directors, alternates, officers or employees of the fund who are not local citizens, local subjects, or other local nationals.

It does not say anything about official capacity.—A. Salaries and emoluments paid by the fund will be paid to executive directors, officers or alternates of the fund as a result of services rendered in their official capacity.

Q. But they will enjoy these immunities in Canada. I do not know to what extent this would be true. This is what has occurred to me. Section 4 article 9 says:

Property and assets of the fund, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of seizure by executive or legislative action.

If the fund should get control of the Canadian Pacific Railway and held it it would mean that Canada could have no possible control over the Canadian Pacific Railway.—A. I am sorry. Would you be good enough to repeat that? I am sure I could not have got it.

Q. Section 4 of article 9 says:

Property and assets of the fund, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of seizure by executive or legislative action.

A. Yes.

Q. No matter what property they gained control of in Canada or owned Canada could do nothing about it.—A. May I ask you to read article 5, section 2, page 22 of the print.

Section 2. Limitation on the fund's operations. Except as otherwise provided in this agreement, operations on the account of the fund shall be limited to transactions for the purpose of supplying a member, on the initiative of such member, with the currency of another member in exchange for gold or for the currency of the member desiring to make the purchase.

That is all the fund can do, buy and sell foreign exchange, and I can give you complete and unequivocal assurance no matter how long the fund remains in existence it will not own the Canadian Pacific Railway.

By Mr. Jaenicke:

Q. When it says property here do you not think it means the building where the fund is going to do the business?—A. If the question is directed to the purpose of this clause then clearly the fund's property must be immune and exempt from seizure and restrictions or the fund would not be able to perform its functions. If a member could seize the currency, or if a private citizen could seize the currency held by the fund that currency would not be available for sale to members of the fund, or if a member, having made its currency contribution said, "Now, this currency is blocked and cannot be used for any purpose", then it would in effect have cancelled its contribution to the fund.

Q. All I can say is these immunities look positively preposterous.

Mr. COLDWELL: When they are explained they do not look too bad.

Mr. BLACKMORE: The trouble is getting them explained.

Mr. COLDWELL: I though we had them explained.

Mr. BLACKMORE: I have very serious suspicions as to what this thing can grow into.

Mr. BREITHAUP: There is a withdrawal clause there. You can withdraw in a hurry if the thing is no good.

Mr. BLACKMORE: A baby tiger looks quite innocent but when it is grown it is a different matter.

The CHAIRMAN: I wonder if you would be good enough to confine yourself to questioning the witness.

Mr. BLACKMORE: When these men like to joke I like to show I can do it, too. Now then, Mr. Chairman, I asked some time ago for an elaboration of certain remarks made by Mr. Rasminsky in connection with what could be done to avoid a depression.

The CHAIRMAN: Your questions were all taken down by the reporter. I have had copies extended which I will hand to Mr. Rasminsky, and I will ask him to have the answers ready for you at the opening of our next sittings if he is able to do that.

The WITNESS: When is the opening of the next sitting?

The CHAIRMAN: To-morrow morning. So, if you will get on with Dr. Mackintosh, we will try to make progress.

Mr. BLACKMORE: I would like to ask Mr. Rasminsky this question: just what was the objective of the experts in forty-two nations as they set about drafting the Bretton Woods agreement; what was their objective? Was it to eliminate trade restrictions or was it to help avoid international friction and so ensure peace?

The WITNESS: Mr. Blackmore, the purposes of the international monetary fund are set out in article I on page 18 of the articles of agreement, and the purposes of the international investment bank are set out in article I of the articles of agreement of the international investment bank on page 47. The experts at Bretton Woods sought to draft articles for institutions which would accomplish the purposes set out there.

Mr. BLACKMORE: One interesting thing to me, Mr. Chairman, is this, that this Bretton Woods agreement, United Nations organization, and all the rest of it, are rendered more or less sanctified by the propoganda which tries to convey to people somehow or other that these things are going to attain peace.

The CHAIRMAN: Now, Mr. Blackmore, I do not want to be interrupting you or to be harsh with you, but I am going to ask you again to please confine yourself to questioning the witness and to refrain from making statements.

Mr. BLACKMORE: Mr. Chairman, sometimes a statement is necessary in order to base a question on that statement. Now, in order to get my question to Mr. Rasminsky I would like to quote a passage from the minister's speech in the House of Commons in which he introduced the Bretton Woods agreement on December 6.

The CHAIRMAN: I shall have to rule that out of order. This committee unanimously decided that they would reserve any statement by members until the conclusion of our hearings of evidence, and that in the first instance we would proceed with the examination of witnesses. Now, I know that you want to abide by the decision of the majority of the committee—in fact the unanimous decision of the committee. Now, would you please confine yourself to questions and answers instead of reading a statement or anything like that?

Mr. BLACKMORE: I would like to ask Mr. Rasminsky if one of the major objectives of the Bretton Woods delegates was to ensure peace in the world?

The WITNESS: I think, Mr. Blackmore, that clearly that is a question which one cannot say "no" to and which one cannot say "yes" to without elaboration. The Bretton Woods Conference was not a peace conference in the ordinary sense in which that term is used. I think it was the general conviction among the

delegates who were present at Bretton Woods that the establishment of a functioning international monetary machine and the establishment of an institution such as the international bank of reconstruction and development would make some contribution—I do not think the delegates exaggerated the degree of contribution that would be made—to the creation of economic conditions conducive to prosperity and conducive to peace.

By Mr. Blackmore:

Q. Now, if that is the case I was going to ask this question which probably will require too much elaboration: To that extent could the witness show that the operation of the Bretton Woods agreement would contribute to the establishment of conditions conducive to peace, remembering that peace in a general way or war in a general way in the world arises from economic friction which results from adverse trade balances?—A. Mr. Blackmore, I find it impossible to accept either your premise or your conclusion, so I do not really see how I can answer that question to your satisfaction.

Q. Would you say that the fundamental cause of war is not adverse trade balances?

Mr. STEWART: That has nothing to do with Bretton Woods.

The WITNESS: Mr. Chairman, whatever qualifications one might place on my capacity to give testimony on Bretton Woods, I certainly do not regard myself as qualified to give evidence on what are the causes of war.

Mr. BLACKMORE: The question arises out of purpose No. 2. Purpose No. 2 is: "To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy."

The CHAIRMAN: That says nothing about peace.

Mr. BLACKMORE: Would I be safe in saying that if every nation in the world was able to accomplish those objectives there would be very little danger of war?

The WITNESS: I don't know.

Mr. BLACKMORE: Now, that would be the only justification I could possibly see for the Minister opening his speech with the statement that the issue at stake—

The CHAIRMAN: Mr. Blackmore, please confine yourself to question.

Mr. BLACKMORE: Shall I put it this way: would not that be the only possible justification for the minister opening his speech with the statement to the effect that the issue in Bretton Woods is whether or not we are going to co-operate for peace?

Mr. COLDWELL: I should imagine it is very difficult for the witness to say what was in the minister's mind when he made the speech.

Mr. BLACKMORE: I would say this: would it not be a justifiable question since this whole matter was introduced into the House of Commons under this sacred guise as a measure for the accomplishment of peace—would it not be a very logical question to ask the witness in what respects the Bretton Woods agreement could guarantee peace or guarantee co-operation which would lead to peace?

The WITNESS: Well, Mr. Chairman, if that question is directed to me, I would say it would be perfectly logical to address that question to me if I were at the beginning of the evidence that I have given. But I have given evidence bearing on that question for most of yesterday and all of today. I am not tired of giving evidence; I am certainly not; but a great deal of the evidence that

has already been given bears quite directly on that question, and I could not answer the question adequately without repeating most of the evidence I have already given.

Mr. BLACKMORE: Of course, probably you could say anything would have a bearing on peace if that could be true; but I am not at all satisfied that we have touched the real crux of the problem at all when we are dealing with Bretton Woods. Of course, I may be mistaken.

The CHAIRMAN: Now, Mr. Blackmore, if you are through with your questions to this witness please carry on with Dr. Mackintosh until 10.30.

Dr. W. A. MACKINTOSH, Acting Deputy Minister of Finance, called:

By Mr. Blackmore:

Q. Dr. Mackintosh—Mr. Chairman, I wonder if Dr. Mackintosh would agree that possibly one of the major causes of the rise of Hitler was the depression?—A. I have read that.

Q. It would be a logical conclusion. Is there any reason why we should not accept that as a logical conclusion, that one of the major causes of the rise of Hitler was the depression?—A. I am afraid, Mr. Blackmore, I would be wasting the time of the committee in offering myself as an expert witness on why Hitler rose. The committee could tell me much more about that than I could tell them.

Q. But suppose we assume that that is the case, would not the cause of the depression have a major bearing on war?—A. On your assumption, I think it would.

Q. Now, what were the causes of the great depression in the United States?

Mr. MICHAUD: Is that a pertinent question?

The CHAIRMAN: I do not like to have to interrupt you so often, Mr. Blackmore, but I think you should confine your questions to the measure before the committee. We have a big enough task to do properly and do it in time, and while these questions are interesting and all that sort of thing, I do not think they are relevant.

Mr. IRVINE: Could you not put that question in this way? Would the agreements now under discussion have a tendency to prevent, or would they prevent the recurrence of a depression? Would that be all right?

Mr. BLACKMORE: That is all right. We are asking Dr. Mackintosh this question.

The WITNESS: Well, no one could say that these two agreements if put into effect would prevent a depression. They only cover certain sectors of the economic field. On the other hand, it would be true to say that these two proposed agreements are directed at some of the problems which contributed to the depression and to its prolongation.

By Mr. Blackmore:

Q. What problems are they directed at that prolonged the depression?—
A. There is the whole problem of disorganized currencies, development of discriminatory exchange practices, endeavour to push trade through multiple quotations on exchange which were common in the late thirties and which are specifically dealt with in the monetary fund. It is also true that when many nations needed capital, both short-term and long-term capital, with the onset of the depression there was no assured place to which they could go. The monetary fund is a proposed mutual organization in which both the prospective borrower—if you may call him such—and the prospective creditor are represented, and in which the debtor or prospective debtor has for the first time an assured access to a source of credit.

Q. Would the witness say that the exchange restrictions and high tariffs and all the other restrictions of trade were a cause of the depression or a result?—A. I think you could say they were both.

Q. Primarily the causes are the same?—A. It would be very hard to draw a comparison there. A depression is a cumulative thing which feeds on itself and develops, intensifies many factors which contribute to it.

Q. Would a person be safe in assuming that countries adopted these trade restrictions to ward off the effect of the depression in the United States?—A. In some cases that is quite true.

Q. For example, in what case would you say it was not true? Can you recall offhand a case in which it was not true?—A. I would not say that the trade restrictions which the United States itself adopted under the Smoot-Hawley tariff just before the depression began were adopted in order to ward off the depression.

Q. Would you say they contributed to the depression?—A. I would think so.

Q. Would you say the first step in the onset in the depression was to withdraw the foreign loans by the United States, the cessation of foreign loans?—A. It is pretty hard to state a problem like that, that depressions have a first step and a second step. What you have generally is a number of converging influences all tending in the same direction. The cessation of lending by the United States was one of the influences.

Q. The reason I mention that is, I wonder if Mr. Mackintosh had read what Mr. Graham Towers told the banking and commerce committee last summer, that the cause of the depression was the cessation of foreign lending by the United States?—A. That seems a somewhat unqualified statement for Mr. Towers to make. I would like to read the rest of his testimony in which that statement was made.

Q. You will find it exactly as I have given it to you. It is a very thought-provoking question I think, is it not, Mr. Mackintosh?—A. I have not read the plot.

Q. If that was the cause of the depression then I wonder if there would be very much that Bretton Woods could do about it had Bretton Woods been in?—A. Except that there is provided here a source of credit, both short-term and long-term that is not dependent on the movement of markets.

Q. But not the amount of credit that was available either directly or indirectly to the greatest possible extent, available through the facilities of Bretton Woods; was not that volume of credit completely negligible in amount when one talks about the use of it as a means of advancing foreign loans, loans to foreign countries, to enable those countries to buy American commodities?—A. I am sorry I did not get your question clear. Do you mean that loans which the United States itself might advance would be very much larger than any loans which could be advanced by these institutions?

Q. Would the Bretton Woods facilities, both the bank and the fund, if the United States had chosen to use them to the limit, have been sufficient either in amount or duration to have staved off the time when the United States would have to cease making foreign loans? If I might make a statement here it would make it much more clear. If I might make this statement; that the United States for a whole decade during the 1920's undertook to solve its internal problems by making advances, loans, to foreign countries to buy United States goods, and as long as that process went on they had good prosperity; and as soon as they decided that they could not go on with that any longer, that there was a limit to this lending of money, that they could not take payment of interest because they did not want to take the goods in; as soon as that came on their troubles began. Isn't that a fact that during the '20s there was a large amount of foreign lending by the United States to enable foreign countries to buy United States goods?—A. Yes, there was a great deal of lending. The bulk

of it was not by the United States government, nor as far as I know were the people making the loans concerned with the purchase of United States goods.

Q. I think you will agree that it is pretty generally agreed that that was the way the United States kept up her export markets. She soon discovered that it did not pay to lend money to foreign countries to buy her goods because they had the money and the goods both. When they came to pay her back in goods she had a high tariff which kept the goods from coming in; consequently she was the loser both ways, so she ceased to make these foreign loans.

The CHAIRMAN: You see, Mr. Blackmore, the futility of building up questions on a basis that has no foundation in fact. The witness has already informed you that the government of the United States did not make the bulk of those loans. What good does it do to build up an elaborate question on a fallacy?

Mr. BLACKMORE: The point is this though, this goes to the root of the economic problem that faces us to-day; just as soon as the war is over the United States is going to be seeking foreign markets and if she does not make these foreign loans she is going to have trouble getting these foreign markets. What we need to judge Bretton Woods by is this standard, is Bretton Woods going to help the situation on and enable the United States to cease making these foreign loans and bringing on a depression? Is Bretton Woods going to enable her to avoid ceasing these foreign loans? That is a question which I think is very vital in considering this matter. Is the measure likely to produce peace?

Mr. COLDWELL: Mr. Chairman, are not these questions very much along the line Mr. Rasminsky answered for Mr. Quelch yesterday? I thought Mr. Quelch made a very fine coverage of this particular point, the effect of foreign trade, and with respect to loans to facilitate foreign trade? Are we not going over the same ground over which Mr. Quelch took Mr. Rasminsky yesterday?

Mr. BLACKMORE: I grant you that. I just wanted to ask Mr. Mackintosh those questions and see what his answers would be. If it is contrary to the rules of the committee that the same questions be asked of different witnesses I will not continue.

The CHAIRMAN: Oh no, it is not contrary to the rules at all.

Mr. BLACKMORE: I wondered what Dr. Macintosh would have to say about these things.

The WITNESS: I am sorry, Mr. Chairman, I have not had an opportunity of reading Mr. Rasminsky's answers.

Mr. BLACKMORE: That is why I thought it was unfair to have Dr. Mackintosh on the witness stand to-night.

The CHAIRMAN: I think if you would ask the witness questions founded on facts that you would get somewhere, but when you build up absolutely fallacious foundations for your questions, obviously the witness cannot answer them.

Mr. BLACKMORE: Now, Mr. Chairman—

The CHAIRMAN: Please ask the witness direct questions, do not make statements to him. Ask him direct questions and you will get answers.

Mr. BLACKMORE: I am asking the witness direct questions; but unfortunately under the circumstances I presume his work has been such that he is not familiar with the subject matter involved.

The CHAIRMAN: He is quite intelligent. You will get an answer if you ask an intelligent question.

Mr. BLACKMORE: I can judge of his knowledge by the way he answers the questions.

By Mr. Blackmore:

Q. I just wanted to find out from Dr. Mackintosh whether he agreed that the first cause in such a depression was the cessation of foreign lending by the United States; and, would he agree that the second great step in the onset of the depression was the raising of the re-discount rate in the United States by the federal reserve board; or that at least it was a major contributing factor?

—A. In my opinion, there is a distinction between a first step and a first cause. I find it difficult to discuss depressions in terms of first causes.

Q. Take it as a major contributing cause. How could that be?—A. The decline of United States lending to Europe and the reverse operation of a flow of capital to the United States itself because of the expected "profitability" of the New York Stock Market, were early steps in the series of events which culminated in the depression.

Q. And was the raising of the rediscount rate one of those?—A. I am sorry I am baffled there. I do not recall when the rediscount rate was raised.

Mr. BLACKMORE: I wonder if Mr. Rasminsky might recollect?

Mr. RASMINSKY: Perhaps your recollection differs from mine. What date would you say, Mr. Blackmore?

Mr. BLACKMORE: What date do you recall, Mr. Rasminsky?

Mr. IRVINE: After you, my dear Alphonse!

Mr. BLACKMORE: My recollection is that the move was made some time in 1928, in the spring.

Mr. RASMINSKY: That corresponds with my recollection.

Mr. IRVINE: It must be correct, then.

By Mr. Blackmore:

Q. It was in effect just long enough to bring on the depression.—A. My mind was fixed on an earlier event, on the reduction in the federal reserve rate, I think in the preceding year.

Mr. RASMINSKY: Under Governor Strong.

The WITNESS: Under Governor Strong in 1927, and it was later raised.

By Mr. Blackmore:

Q. Readjusted. Did not the raising of the discount rate force London to raise its rate also?—A. Well, again I will have to appeal to Mr. Rasminsky if he can remember the chronology of events.

Mr. RASMINSKY: I am afraid that I do not remember the timing of the raising of the London rate.

By Mr. Blackmore:

Q. My recollection is that it did so, and that the two together precipitated the depression in grand style and resulted in Britain going off the gold standard in 1931. At least a third contributing factor to the depression would be the loss of confidence in the New York Stock Market, the loss of confidence in securities because of these two factors? Would that be a logical conclusion?—A. No, I would not follow you in that statement.

Q. What, in your judgment, is the case?—A. It would have taken, in the summer of 1929, something more than a stable discount rate to retain confidence in the New York market. The New York market had gone to levels which were not likely to persist, no matter what the discount rate was.

Q. Well, this contributed. That would be a logical result. If the United States could no longer sell abroad as freely as she had been able to, and if the rediscount rate had gone up one per cent in the federal reserve bank, then there would be two factors there, both of which would shake confidence in the security market. That would be a logical conclusion, would it not?—A. Yes. They were factors.

Q. Just as soon as confidence was shaken in the security market, then the natural logical result would be the withdrawal of loans all over the country, which would cause a gathering in of capital or deflation. Would that be a logical conclusion?—A. Yes, that is what happened.

Q. And this would bring on immediately unemployment and the fall of prices and all the troubles incident to the depression. That would be a logical conclusion, would it not?—A. Not immediately. It was a fairly lengthy process.

Q. The question which arises in connection with this Bretton Woods agreement to my mind is this. If Bretton Woods could show any sign whatsoever of any means whereby that series of events could be cushioned or prevented from recurring, then we might hope to find in Bretton Woods something like a palliative at least which might lessen the shock of the coming depression.

Mr. BRADETTE: We would have to try it first.

The CHAIRMAN: Let us not get into an argument.

Mr. BLACKMORE: The point is this, as I see it. I want to get this point. It is very important because I am concerned about the doing away with war; and the fact that the minister mentioned this in his opening speech indicates that his mind was on that too when he was approaching Bretton Woods. If this is the reason for passing Bretton Woods, then it is of great importance to show that Bretton Woods simply cannot possibly do the thing the minister said it would likely do. I cannot see anything in Bretton Woods that would tend to prevent any one of those five contributing factors from recurring. Can Mr. Mackintosh?

The WITNESS: Well, may I say this. The Bretton Woods agreements are not directed nor do they consist of instruments directed to the reduction of trade barriers in the ordinary sense of tariffs, quotas and so on. As you are aware, the United States government has brought forward proposals for a further conference on trade barriers supposed to be I think conceived by the United States government as another piece in a pattern of international institutions to meet these problems. The Bretton Woods proposals do meet some of the steps which you have enumerated, in that they do supply or make provision for a certain amount of international capital; the direction in which and the rate at which they spend it is under the control of an international organization and not of any particular national government. They provide for countries faced with a sudden drain of foreign exchange a source to which they can turn for resources with which to meet that adverse balance; and there are other features in addition, in these agreements which are put forward in the light of the problems which confronted the world in the preceding decade or more.

Mr. COLDWELL: Mr. Chairman, it is 10.30.

By Mr. Blackmore:

Q. Would it be a correct assumption that when prices fell in the United States there would be a very strong tendency for United States goods to go into the markets, say, of Britain, France, Holland and other countries and displace their own goods and throw their own people on the unemployment rolls? That would be a logical conclusion, would it not?—A. Yes, if you assume that prices fell first there. I had thought you had suggested that a drop in United States imports had preceded the onset of depression.

Q. No, a drop in United States exports.

Mr. STEWART: Mr. Chairman, will you permit me one question just here?

The CHAIRMAN: Yes.

Mr. STEWART: It is in connection with this document which was handed out to us, the percentage distribution of quotas and voting strengths. There

are four columns of figures here and my curiosity is rather piqued because none of them add up to 100 per cent.

Mr. RASMINSKY: The explanation of that is that the calculation was made to four places of decimals, and then rounded off to two. One adds up to 100.1 and the other 99.9, I think.

Mr. STEWART: That explains it.

The CHAIRMAN: It is now 10.30 gentlemen. We must reserve some time for debate on the individual sections of the bill before us. We have had a very exhaustive examination of Mr. Rasminsky. Are you willing that he should table written answers to the few questions as to which he has reserved answers, and to excuse him on his undertaking that he will table early tomorrow written answers to some three or four questions. You have one, Mr. Fraser, and you have several, Mr. Blackmore. Are you content with that?

Mr. COLDWELL: I was just going to ask one more question and he can give a written answer. It is a very short answer. As I understand it the facilities of the bank will be available both for public and private enterprise in the countries where this agreement applies? There is no discrimination against one or the other? Am I right?

Mr. RASMINSKY: Yes.

By Mr. Blackmore:

Q. I might ask one more question of Dr. Mackintosh and then I will be finished with him. He will be happy to hear that. Since there was a natural tendency for the goods of the United States to flow into the markets of other countries would it not be the logical result that they would impose very rigid restrictions to keep those goods out and protect their economy?—A. I cannot really say that these trade restrictions, as I recall them, were imposed against goods of the United States. I do not recall that goods of the United States were flooding markets. I do recall that the United States itself first made a substantial increase in the tariff prior to the onset of the depression, but it is true that when you get into a downward spiral of a depression countries do try to protect their markets by raising restrictions and shutting out the goods of other countries.

Q. If I may ask just one more question then I will positively promise to stop. You see everything that was said here about Bretton Woods, and even by Morgenthau in his opening speech to the delegates, seemed to indicate that the wicked thing was the raising of these restrictions, and Bretton Woods was to prevent that whereas the wicked thing was whatever it was that brought on the depression which caused these people to raise their tariff.

The CHAIRMAN: Thank you, Mr. Blackmore. Is it your wish that we should dispense with any further evidence from these two witnesses on the understanding that Mr. Rasminsky will table some time tomorrow written answers to the outstanding questions?

Mr. FRASER: And they will go on the record?

The CHAIRMAN: Yes. Gentlemen, on your behalf I should like to express the thanks of the committee to both witnesses for their very helpful contribution to the work of the committee.

Mr. MACKINTOSH: Could I make it clear that it was not my personal convenience that was served in my not being here. It is purely a matter of short staff in the department and the extremely heavy program the minister had.

Mr. BLACKMORE: May I express my regret that Dr. Mackintosh had to be here without any previous notice.

The CHAIRMAN: We will adjourn until 11.30 tomorrow morning.

The committee adjourned at 10.35 p.m. to meet again on Thursday, December 13, 1945, at 11.30 a.m.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
December 13, 1945.

The Standing Committee on Banking and Commerce met this day at 11.30 o'clock a.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: In regard to procedure, gentlemen, I have a suggestion to make and it is this. There are some members on the committee who will require to express their views at length, I take it. Most sections of the bill are non contentions, although there may be the odd question to ask in regard to them. If the committee is willing, I would ask the members to reserve their main comments for when we are dealing with section 2 of the bill. That is the section which approves of the agreement.

Mr. QUELCH: That stands until the end, then?

The CHAIRMAN: Yes. If you are willing, we will just go through the routine sections. On section 3, are there any questions?

Mr. FRASER: Before you start that, Mr. Chairman, how about the written answers to the questions?

The CHAIRMAN: Those will be tabled and will go into the record.

Mr. FRASER: I just wondered if we should not have them before we started this.

The CHAIRMAN: Well, I urged Mr. Rasminsky to get them for us; in fact, I called him again on the phone this morning and he is going to have them for us at the earliest possible hour. I will table them the minute I receive them.

Mr. IRVINE: As long as we have them before we finally pass this.

The CHAIRMAN: Before you come to clause 2. I thought we would clear away the non-contentious clauses.

Mr. FRASER: All right.

Mr. BLACKMORE: Before you proceed to consider the bill, Mr. Chairman, I should like to make one or two remarks. I first of all wish to express my appreciation of your fairness in conducting the hearings of the committee thus far; but I wish to point out to you that, in my judgment, the witnesses who have been called up to the present time and who have been heard by this committee are by no means adequate to enable members of the committee to form anything like an accurate comprehension of either the meaning or the implications of the Bretton Woods agreement. I am going to ask you formally here, before the members of the committee, to suggest that the hearings of this committee shall be postponed until the reconvening of the House after Christmas, that we might have an adequate opportunity to call witnesses of national and international importance. This measure of Bretton Woods has been brought in so hastily and—I do not wish to use an objectionable word—in such a manner that very few people know about it, that no one in Canada or very few in Canada realize the colossal importance which is attached to this measure. I think we should have men of international reputation, such men as Paul Einzig, and Lord Keynes of Britain and, if possible, men like Ernest Bevin and Sir Anthony Eden: international men who understand international affairs, who understand money. We should have men of outstanding ability in the United States. I would suggest Henry Morgenthau who presided over the Bretton Woods Conference, and Bernard Baruch who is quite remarkable for the fact that he has been the confidential adviser to the president of the United States ever since

President Wilson. Just why, I have never been able to figure out, but he must be a man of very great ability. I should like to see this committee have him here so that we can question him. I should also like to see the committee have men like Cordell Hull, so that the committee could get the background of this whole thing, the reasons for Bretton Woods and the meaning of Bretton Woods, the meaning of the gold standard.

May I point out, Mr. Chairman, that we have had one witness, and that witness was selected by the government. We have had just one. While he is a splendid young man as far as I can judge, he is a young man. He must not be over 40 years of age. No matter what his educational qualifications may be, surely the Banking and Commerce Committee of the House of Commons of Canada, the Banking and Commerce Committee of the major member of the British Commonwealth, on whose decisions will in large measure depend the courage with which Britain opposes this measure, should not pin its faith entirely on one man. That would not be in accordance with the principles of common sense. So I am asking you, Mr. Chairman—and I see no way of avoiding the difficulty we are in except by asking you—to suggest to this committee that in the interests even of decorum in the conduct of this investigation we ask that our sittings be adjourned until after the holiday at least, so that we can conduct our hearing in something like an orderly and respectable manner.

May I just illustrate to you how serious is the thing we are doing, Mr. Chairman. Here are the reports of the hearings of the Banking and Commerce Committee for 1944. Just look at them. All that committee was dealing with was the Bank Act, bill 91, and probably two or three very minor matters. Now, Mr. Chairman, the Bank Act of Canada, is an Act over which we must have complete control, an Act which we can call under revision, under advisement and under scrutiny at any time we choose, an Act which must come under revision again within 10 years, and surely that Act is a document of such insignificant importance as compared with the Bretton Woods agreement as to be dwarfed into utter insignificance.

Mr. MARIER: And how much of it is useless?

Mr. BLACKMORE: That is not the question. The important matter, Mr. Chairman, is this, that during this time—

Mr. MARIER: There were two-hour speeches made there to no purpose.

Mr. BLACKMORE: What difference does that make?

Mr. MARIER: I was on the committee.

Mr. BLACKMORE: I was too.

Mr. QUELCH: Were you not partly to blame?

Mr. BLACKMORE: The important matter is the number of sittings of that committee. Notice that this 1944 committee commenced to sit in March. I have the details here, if the committee will permit me to give them.

Some hon. MEMBERS: No, no.

The CHAIRMAN: I think, Mr. Blackmore, we are all pretty well familiar with them. You have made your point in that regard.

Mr. BLACKMORE: All right, Mr. Chairman. Then, look for a moment or two at the hearings of the Banking and Commerce Committee of 1934, ten years before.

Mr. FRASER: They were not as long winded.

Mr. BLACKMORE: Here is the report. It consists of 960 typewritten pages in small print, and the hearings extended over a period from March 6 until June 14, 1934. During that time the members had a chance to read the *Hansard* of the committee. They had a chance to call whatever witnesses they wished. They had a chance to reflect. Now here again all we have under consideration

is an Act respecting banks and banking, and an Act to incorporate the Bank of Canada, two measures which, I think every member of the committee and every citizen in the country who is informed concerning the matter must realize, are utterly insignificant as compared with Bretton Woods. Take even the Banking and Commerce Committee hearings in 1939. They continued from March 8 until June 1. There were 25 *Hansards* published, giving the members a chance to read the *Hansards*, reflect, weigh the value of the evidence. Now contrast that with what is going to be the case in connection with this Bretton Woods agreement, a measure which, in my judgment, is the most portentous measure that was ever presented before any British parliament in the history of the British Empire. Notice what we have done thus far. We started our hearings on December 11. We sat from 4 o'clock until 6. We sat from 8 o'clock until 10.30 that day, giving us four and a half hours. We sat on December 12 from 11.30 until 1, and from 4 o'clock until 6, and from 8 o'clock until 10.30, giving us a total of how many hours?

Mr. MICHAUD: How many hours did your group take out of that total?

Mr. BLACKMORE: That question is entirely beside the point. That gives us a total of six hours on December 12. We have had the opportunity in this committee to examine witnesses for eleven hours, Mr. Chairman—eleven hours in two days—and because of the exigencies of the circumstances, we have not even been able to see a *Hansard* of the evidence that was given, so that there is not a particle of chance for any member to have read the *Hansard* or to have weighed the value of the evidence or to have reflected. And now, Mr. Chairman, apparently we are all prepared to commence to pass the various acts of the bill. I confess, Mr. Chairman, if this thing is permitted to go on, it will stand as an everlasting reflection on the men of this generation who sat in parliament and upon the men who are in this Banking and Commerce Committee. I urge upon you, Mr. Chairman, that you do not allow such a thing as this to happen. I urge that you report to the authorities under whom you work, urgently requesting that this committee be given a chance to postpone its hearings and reconvene when the new parliament is reconvened, in order that it may hear men of outstanding qualities who can come and testify, so that when we make our decision it will really be worth while. I stand positively appalled at the rush and haste which we have had.

While I am on it, may I draw the attention of honourable members to this fact, a most astounding fact: this measure was introduced into the House of Commons on December 6. That was on Thursday. On Friday and Saturday we sat, and during both of those days the House was sitting from 11 o'clock in the morning until 11 o'clock at night, with recesses. The result was that every honourable member was just rushed, so that it would be utterly impossible to give suitable attention to the debate going on in the House. Then the debate went on; and on Monday night, Mr. Chairman, along about 10.35, the Prime Minister entered the House and threatened closure, after three days of debate on this most momentous measure. Contrast with that the number of days of debate that were spent on the war appropriation bills which, after all, involved no manner of commitment of Canada except just a financial cost. This measure involves commitments which can affect the fortunes, the lives, the liberties, and the prosperity of generations yet unborn.

Mr. JAENICKE: Yet we can withdraw at any time we wish.

Mr. BLACKMORE: I am very doubtful that we can withdraw at any time. If we could withdraw at any time, will the honourable member tell me why Great Britain has had to be clubbed into accepting it? And "clubbed" is the word.

Mr. JAENICKE: I would not say that.

Mr. BLACKMORE: There is no doubt about it. Since the honourable member has raised the question, may I just give him a little bit of evidence that has come right off the wire to-day, just to show you what condition is obtaining in Great Britain. I am depending upon the report of a private secretary. She was not just exactly sure that she had everything right and I am not either. But I am giving you what she told me right after hearing the news and reading the notes. Over C.B.O. this morning the report was that the debate continues in the British House. One Conservative calls the measure a "suicide pact".

Mr. FRASER: I heard that at 8 o'clock this morning.

Mr. BLACKMORE: That is right. Another one calls it a "danger to friendship between United States and Great Britain." Surely these honourable members are responsible men.

Mr. MICHAUD: They say that because they are in the opposition. They approved of it last summer, did they not?

Mr. BLACKMORE: The simple fact is that the statements are being made. I am not making any effort to appraise the value of those statements. I am simply bringing to the attention of honourable members the fact that these statements are being made.

Mr. JAENICKE: If the British parliament accepts, what would you say?

Mr. BLACKMORE: I would say that the British parliament is absolutely clubbed into accepting and evidence will be forthcoming of that.

Mr. IRVINE: I think my honourable friend is mistaken if he thinks the British parliament will be clubbed into anything.

Mr. BLACKMORE: If it rejects it, imagine the position Canada would be in.

The CHAIRMAN: I do not think that a nation that saved civilization for this world is going to be clubbed into anything; and I do not think you are gaining anything or adding any weight to your remarks by making statements of that nature, Mr. Blackmore.

Mr. QUELCH: May I just read the heading in the *Citizen* this morning. "Dalton sees U.K. hungry if loan rejected." And one of the conditions of the loan is the Bretton Woods agreement.

Mr. IRVINE: Read that again, please?

Mr. QUELCH: "Dalton sees U.K. hungry if loan rejected." And one of the conditions of getting the loan is the Bretton Woods agreement.

Mr. MICHAUD: I think in fairness you should read the whole thing.

Mr. BLACKMORE: That is quite all right. The more you read there, the more emphatic the clause will be.

Mr. MARIER: It is not proof.

Mr. BLACKMORE: I am not offering it as proof. All I am offering it as is evidence that this Banking and Commerce Committee should surely take measures to see that it is careful. Canada has a reputation for being cautious. How long will that reputation survive if we proceed in such precipitate haste as has been observable in the conduct of the investigation of this measure up to the present time?

Mr. HAZEN: You knew for some time that the matter was to come before this committee, did you not?

Mr. QUELCH: No, we had no assurance until later.

Mr. HAZEN: You knew the bill was going to come up.

Mr. LOW: Not at the time of the speech from the throne.

Mr. BLACKMORE: I must say that I took every means at the disposal of a member of parliament in this House of Commons by consulting the very best authorities that could be found in this House. I took every means to find

out whether this measure would first of all be accompanied by a bill. It was impossible to be sure of that. It was impossible to be sure that it was not going to take the form of a resolution like the resolution pertaining to the united nations, and not until the Minister of Finance put on his resolution was it possible to determine whether or not there was going to be a bill at all. After that I took every measure that I could possibly think of to find out whether it was likely that the bill would be referred to the Banking and Commerce Committee, and the best authorities available in this House were uncertain as to whether that would be the case. I am just giving my statement on the honour of a member of parliament.

Mr. Low: And it is correct.

Mr. BLACKMORE: And the hon. member for Peace River, the Leader of the Social Credit party, testifies that such is the case. That again is evidence that we surely are going to be reckless if we adopt this measure without the most careful study. All I am asking, Mr. Chairman, is that right now you suggest the adjournment of this committee so that we can go on studying it in a leisurely way. May I run over the evidence I was giving regarding the condition in Great Britain.

Mr. FRASER: Before you do that may I ask the chairman a question? Is it not necessary that this be passed before January 1? That is the date they have set.

The CHAIRMAN: All members of the committee have read the facts and the facts clearly indicate that there is a deadline. I would suggest that Mr. Blackmore should be permitted to complete his remarks—I assume he is going to make a motion—and I would ask him to be as brief as possible.

Mr. BLACKMORE: Mr. Chairman, that is being perfectly fair.

The CHAIRMAN: If there are no interruptions I think it would facilitate the work of the committee.

Mr. BLACKMORE: That is fair enough. Just what action I will take with respect to making a motion I do not know. I would much rather that you did this thing of your own volition. I was proceeding with the state of affairs over in Britain. I have this noted. Hugh Dalton said that although the loan had fallen far short of expectations yet what are we going to do? That is clear evidence that the only reason Britain is accepting Bretton Woods is that people are in danger of starving if she does not. That is the deplorable, that is the ghastly situation that exists between Great Britain and the United States to-day. In reference to the chairman's remarks about the nation that saved the world you could take the greatest giant that ever lived in the world, let him wrestle determinedly with two other giants and he could kill both of them but by the time he gets done a four-year-old child could kill him. That is the situation Britain finds herself in. Give her time to recover, give her time to regain strength and get her breath and she will face the world again, but catch her right at the moment that she finishes the desperate struggle with Japan, following the desperate struggle with Germany, catch her at a time when she is in danger of the greatest possible international disturbances which might result in a terrible war almost any time, and all hon. members know full well that such is the situation that faces her, and tell me how Britain could possibly have the strength to resist an American demand that she accept Bretton Woods on pain of being deprived of the continuation of the lend-lease upon which she must depend.

To go on with what I was saying, I am told last night Matthew Halton, the great commentator from Britain, said that the measure was being criticized on three grounds. My private secretary, as she recalled them, said these were the grounds, that in effect it would be a return to the gold standard; secondly, it would tie Britain to the American economy, and thirdly, it showed that there

was no equality of sacrifice during the war. I think hon. members will all agree there is certainly plenty of justification for those criticisms as has been developed right before us through questioning of Mr. Rasminsky. He said that the newspapers had criticisms. One called attention to the fact there was no real option. His mind, of course, was centred on the need of this new plan. They were not compelled to like it and they certainly do not like it. Britain would be saddled with a colossal annual tribute of \$140,000,000 a year for the rest of the twentieth century.

The *Economist* of London said, "We must have the loan but we will take it with regret." Halton was all against the measure. May I call the attention of the members to that which is on record in the press of December 11. We read that four labour members of parliament, Richard Stokes, Viscount Corvedale, son of Stanley Baldwin, a former prime minister, Norman Smith and Michael Foot, author, journalist and member for Davenport, brought in two amendments. The first amendment called on the House of Commons to reject a bill "Which irrespective of whether or not the American Congress approves a dollar credit for this country commits Great Britain to an international monetary system likely to frustrate the effective planning of British industry and trade," which means, if I understand it aright, that the acceptance of that measure would prevent Britain from recovering from her impoverished and battered condition. Can it be possible that there are men in the United States who have designed that such shall be the case, that Britain shall never again recover after having sacrificed almost her life to save the United States?

The second amendment referred to Prime Minister Attlee's motion to approve the loan agreement. It asks that the House refuse its consent to a dollar credit which disregards the principle of mutual aid on which the war effort was based, which must deprive this country of effective control over its own currency," and my secretary tells me that something is left out in the resolution at that point, but the remaining words are, "to undertakings"—I would say that it must be ties the country, ties or binds the country, "to undertakings impossible of fulfilment." I am told that these four labour members of parliament have been read out of the labour party since.

Mr. COLDWELL: I have not seen it.

Mr. BLACKMORE: I am told that is the case. I may be misinformed.

Mr. COLDWELL: It cannot be done just that simply.

Mr. BLACKMORE: These four men certainly must have realized the responsibility of doing what they did. They must have been exceedingly careful of the wording of these resolutions. That is just plain common sense. I think the whole thing taken together, making all allowances for imperfections in the report which I have been given, indicate a most desperate condition in Great Britain. I would say, Mr. Chairman, that if Canada accepts Bretton Woods under the present circumstances right now within the next ten days that Canada will be in effect taking up a club and going to help the United States beat Britain to death. I do not think that is expressing it too strongly at all. Surely Canada should at least reserve her judgment until Britain gets through.

I think all of these matters are worthy of consideration, and I would suggest to all of us that we at least adjourn the hearings of this committee until such time as we can give the whole matter decent attention, attention becoming to the Banking and Commerce committee of the Canadian House of Commons, the House of Commons of Canada who because of her part during the recent war stands today as one of the world's major nations. I respectfully request, Mr. Chairman, that you consider most carefully the advisability of adjourning the hearings of this committee until such time as we can have plenty of opportunity to discuss the whole matter and both sides can call all the witnesses we wish.

May I also point this out, that yesterday I sent a regular request—last night after 8 o'clock—to the chairman that Mr. Mackintosh should be called at a witness. I wanted to question him. I did not have the slightest idea that Mr. Mackintosh would be here. Any hon. member in this committee must realize the state of unpreparedness in which I found myself, but what happened? The chairman aided, abetted, strengthened and sustained by members of every party in this committee put pressure on me to commence questioning Dr. Mackintosh last night. I, as a responsible member of the Banking and Commerce committee of Canada, was told that Dr. Mackintosh was so busy that it was not convenient for him to be here. I, as a responsible member of the Banking and Commerce committee, had requested that Dr. Mackintosh be called and I was told by the chairman that he was too busy to be in attendance, in effect, and that consequently I must start questioning him at 10.05, I believe it was, or 10.15.

Mr. COLDWELL: A little earlier than that.

Mr. BLACKMORE: I do not think so.

Mr. COLDWELL: About 10, I think.

Mr. BLACKMORE: That was bad enough, only half an hour. I ask hon. members to realize the precedent that was established in the conduct of the affairs of the Banking and Commerce committee by that simple thing, that a member is to be denied the privilege of questioning a public servant, a civil servant of the Dominion of Canada, one who is right here in Ottawa and readily available, a man who signed the Bretton Woods agreement for Canada. A member of parliament is denied the privilege of questioning that man because he is too busy to attend, and this Banking and Commerce committee is supposed to have authority to call any man it chooses.

I think every hon. member must realize how serious a precedent was set there. The chairman did it very gently and graciously but he did it, and the members of this committee put enough pressure on me to make it so that I had to question Dr. Mackintosh on one of the most vital matters pertaining to this whole international set-up, a question which was absolutely fundamental to the acceptance or rejection of Bretton Woods. On that all important question I had to question Dr. Mackintosh without even half an hour of preparation to get my questions right, and without Dr. Mackintosh having had any opportunity to be prepared for questioning. I must confess that if that does not impress every member of this committee I certainly must revise my opinion of the members of this committee. Therefore I ask you once more to take steps to have this Banking and Commerce committee hearing postponed.

Before I sit down may I refer for just a minute to the suggestion of Mr. Fraser. Part of the high pressure methods by which this House is being coerced, or shall I say constrained—it is not coercion but it is constraint—into a reckless and precipitate acceptance of Bretton Woods is the fixing of this date of January 1st. Did not the members who represented Canada at the Bretton Woods Conference realize that there would be a danger that Canada might not be able to give this Act suitable consideration? Why did they not make some provision? Why should there be an absolute deadline? Since the war ended, since we had our election on June 11th, has the government of Canada not had time enough to talk with the American officials?

It set forth facing the almost impossibility of Canada's parliament being called in time I think to give the Banking and Commerce committee an opportunity to consider this measure. Has not the government of Canada had time enough to urge that on the United States? Surely; and if it were absolutely impossible to get the United States to move from its position, what was there

to prevent the government of Canada from bringing in the Bretton Woods agreement immediately, the Bretton Woods agreement being unquestionably incomparably more important than perhaps all the other measures considered by this House put together.

Well, what I have indicated has been done. But, Mr. Chairman, before I finally conclude I would just say this again in respect to Mr. Fraser's question. I personally do not believe that there is any such urgency, and if there is any such urgency and the United States is adamant about the matter, I think that fact is a pretty strong indication that we better be approaching this whole matter with much reserve.

Mr. FRASER: Mr. Chairman, I asked the question just to have it put on the record. But I will say this, I agree very much with some of the things Mr. Blackmore has said. I do not think that we have had a sufficient opportunity to examine the witnesses; and I asked the question in regard to the date because I felt that the Canadian government and this committee should have more time to study the matter, because I do not think that at the present time there are any more than a half a dozen men in the whole House of Commons who understand the agreement, despite the fact that they might think so.

Mr. IRVINE: Well, if we do not understand it now, another six months would not make us any wiser.

Mr. COLDWELL: Mr. Chairman, may I say a word?

The CHAIRMAN: Yes.

Mr. COLDWELL: I agree that the Bretton Woods agreement should have been placed before the House of Commons earlier; to that extent the criticism that is made by the honourable member for Lethbridge (Mr. Blackmore) has some validity. I do not agree with him though that there has not been sufficient time since the experts met in the summer of 1944.

Mr. BLACKMORE: I did not imply that; the honourable member misunderstood me.

Mr. COLDWELL: You said, why was this date set as at December 31; it was set eighteen months ago.

Mr. BLACKMORE: I had in mind Canada's action on it.

Mr. COLDWELL: That is what I am just saying, what I understood the honourable member to have said.

Mr. BLACKMORE: I know the honourable member wants to be straight.

Mr. COLDWELL: And that would be eighteen months from the time it was possible the deadline would be December 31.

Mr. BLACKMORE: May I just interrupt for a moment; of course, the time of the closing of the war would have an important bearing on that, and it was very much a matter which could not be foreseen.

Mr. COLDWELL: Mr. Chairman, what I was going to say was this; I have read a great deal about this agreement. I came to this committee with some matters that I wanted to have clear in my mind. I wanted particularly to understand the implications of the stabilization fund; I wanted to know about the powers of the bank. And I think that everyone of us who sat here and listened to the exceedingly clear and fine evidence that was given by Mr. Rasminsky can understand the implications of both the fund and the bank. And if I may just throw this in, I think that we all of us can express a word of appreciation to the honourable member for Acadia (Mr. Quelch) who did put a number of very important questions and brought out a great deal of information that all of us were interested in. I think that one should say that.

Well now, as far as the British are concerned; no one in this House has more reason to feel a gratitude for and a closeness to those people than I have reason to feel. I was born and brought up there, educated there; as a matter of fact, I know well most of the leading members of the present government of Britain. But I am quite confident of this, that as far as the British government is concerned, and as far as the British people are concerned, that they will look after themselves; that that has been the history of British governments of all times. And if the agreement is accepted by the British government you may be pretty sure that very careful safeguards have been made to preserve the interests of the country as far as they are able so to do. We are not discussing the British loan, we sit in the Canadian parliament, and the British loan will have to be decided by the members of the British House of Commons and not by the parliament of Canada. And we have got to consider this, I think, from the good or ill that it holds for the world in which we live.

Mr. BLACKMORE: Hear, hear.

Mr. COLDWELL: I personally believe that the more international co-operation there can be the more likelihood we have of attaining peace in our time and preserving that peace; that we cannot look upon these problems from the position of any single group or even any single nation; and that this is a matter that has to be considered from the international point of view.

I have always felt that the debtor nations, as they have been called here, and the backward peoples of the earth, ought to be given an opportunity of trying to build up their economy so that the general standard of living throughout the world could be raised. And for the first time in the international arena we see the establishment of a fund to which a nation has a right of access without the intermediary of a banker standing in the position of a potential creditor who will decide whether that nation shall get the credit or not. For the first time as far as I know in history it is now possible for a nation to go to a new fund, which we call a stabilization fund, and ask as a right for the exchange necessary to conduct the trading relationships of that nation.

Mr. QUELCH: Up to a limited extent.

Mr. COLDWELL: Yes, to a limited extent; but while it is to a limited extent it is a new feature.

Mr. FRASER: They have a chance now where they did not before.

Mr. COLDWELL: It is a good feature. It is a feature that can be extended in the future; and to that extent I think it is worthy of our support.

Now, a great deal has been made of the trading relationships among the nations of the world. We are not dealing at the moment with trading relationships, we are dealing with matters of exchange; but I want to say that I believe with those who have emphasized the trading relationships, that unless this is paralleled by agreements in the realm of trade and commerce looking to the freer flow of trade across the world, that Bretton Woods will not cure the economic ills, it will not open up the channels of trade. But we know that the American government, and the other governments, have expressed a desire and a willingness to meet at an early date to consider those matters of the freer flow of trade and of commerce; and that is all to the good.

And may I just say to my honourable friends who are inclined to be critical of this, that you must not consider Bretton Woods, or the food and agriculture committee, or the I.L.O., or any of the national organizations that have been set up have been set up as merely separate entities working in a vacuum. As a matter of fact, it is hoped that all of these organizations will be brought into association with the new United Nations Organization.

I happened to have been one of Canada's representatives on the committee which established the social and economic council, and if you will read the chapter on the social and economic council you will find the aims set out

there—full employment and so on—higher standards of living for the people of the world—and under that social and economic council it is anticipated that certain specialized agencies will be set up; a specialized agency dealing with trade, a specialized agency such as this dealing with exchange; a specialized agency dealing with food and agriculture; a specialized agency dealing with labour relations, along the lines of the I.L.O.—which was one of the really successful organizations which came out of the late League of Nations. And, to my mind, the stabilization fund is one of the most advanced ideas that have been placed before the world at any time. As for the opposition to it, it is interesting to note that Mr. Rasminsky placed on record that the criticism against the stabilization fund came very largely from the American bankers' association and from that very important bank, the Chase National Bank. And the reason that they opposed the stabilization fund was fundamentally this, that for the first time the nations could go to a fund and get a limited accommodation, but accommodation, without the intermediary of the international financiers, thus dealing a blow at the control of finance by any group of international bankers. And that is one of the reasons that I am in favour of the stabilization fund, because it does tend to destroy that control which we have been cognizant of for so long, and have been anxious to destroy for so long.

So then, as far as the stabilization fund is concerned, I am not going into details. The details were placed very clearly and very explicitly by the witness who dealt with this matter before this committee; and I think that everybody will agree with me that that witness when occasion needed it placed before us some of the failings of the proposal as well as the good features; but the good features in my opinion outweigh the bad ones.

As far as the bank is concerned, it is true that it is supported by the banking fraternity because it is along orthodox lines. It is a bank to be set up which guarantees against loss to the lender. And again, there is a limited liability there. If I were going to oppose this measure I would oppose it because of these features: the feature that it is too orthodox and that it guarantees private interests against loss perhaps at public expense. Those would be the grounds on which I would oppose it. But I realize this, that we are in an evolving society, and that none of us can expect perfection. Those people who take the perfectionist attitude in international affairs I think sometimes fail to realize how international agreements are arrived at. I do not suppose that anybody—if I may use San Francisco again, because it is in my mind—I do not suppose that anybody, at least any nation which was represented at San Francisco, came away entirely satisfied with everything that was done at San Francisco. And those people who look to perfection in agreements; let me put it this way, those who seek the perfect agreement as the only agreement they will have are, I think, the most unrealistic people in the world. You have to accept the best you can get, and in my opinion the stabilization fund alone warrants our support for this particular proposal. What my colleagues will say or do I do not know; I am speaking entirely for myself; we have not had a chance to discuss this matter. But I have attended these meetings of the committee and I have given a good deal of attention to this matter. I was anxious to see the subject come to this committee, and I wish we had more time to go into it.

Mr. BLACKMORE: Hear, hear.

Mr. COLDWELL: My honourable friend says, "Let us adjourn consideration of this matter until next session." Now, unless 65 per cent of the quota is subscribed to validate this final Act before the 31st of December it falls to the ground. If what my honourable friend from Lethbridge says is true, and I am not satisfied that it is true; if my honourable friend is right—I will put it that way—and I am not satisfied that he is altogether right—that the condition of the American loan was the acceptance by Britain of the Bretton Woods agreement; if that is true, then if the Act is not validated by the 31st of December, according to that agreement, the loan itself falls to the ground.

Mr. QUELCH: Not if Britain agrees to it.

Mr. COLDWELL: My honourable friend is trying to protect the interest of Britain.

Mr. QUELCH: If Britain agrees to it and they fail to get 65 per cent it will not go into effect and Britain will not be broken by the agreement, but she will get the loan. It is the truth.

Mr. COLDWELL: I said if the going into effect of the agreement is the consideration upon which Britain got her loan then the loan would fall to the ground. If that is so, there may be the other proviso, that she could validate, and if she did she carried out her agreement and got the loan. I do not know whether that is so, but I do not think my honourable friends know that either. I noticed in this morning's paper, for example, that there is an agreement in Great Britain among substantially all parties of the House that the arrangement made at Washington would be beneficial to Britain and was the best arrangement that could be made. I notice that Sir John Anderson said that, and he speaks, of course, for the official opposition in the House. Now, there may be opposition in the British House to this agreement; there may be opposition in our House to it; it does not prove very much when four or five members or half a dozen members or a dozen members of the House out of six hundred members are opposed to it. I think we have got to consider this not on the basis of what the members of the British parliament will do, but what we in Canada are going to do. I have always felt this way about these matters, that when we are engaged in a problem we must judge that problem from the Canadian point of view, not from the British point of view, not from the American point of view; simply from the Canadian point of view. In other words, is it good or bad for Canada or the world?

Someone has spoken about the gold standard. Now, I am convinced that it is not the gold standard, but my honourable friends may have an argument in that it has some features of a gold standard.

Mr. QUELCH: The witness agreed it was a form.

Mr. COLDWELL: I say it may have some features of the gold standard. I am not going to argue that point.

There is one thing that impressed me in the evidence—and I would oppose bitterly this country going back to the gold standard—

Mr. BLACKMORE: Hear, hear.

Mr. COLDWELL: —that the use of gold in this agreement—it is not a gold standard, although it is used in certain instances as a yardstick—if you look at it from that point of view and from the point of view of Britain and of Canada, is beneficial to the British Commonwealth including Canada because it so happens that the British Commonwealth including Canada are the largest producers of gold in the world. That would not influence me to accept this agreement if I thought we were going back to a gold standard. I just throw that in because the argument has been used.

Now, Mr. Chairman, I just stepped in from the House and have not had time to give much attention to this matter since the House rose last night, and I was quite unprepared to say much at the moment, but I have listened to the ideas expressed and I have formed some opinion while the committee has been sitting, and when this matter goes back to the House, my colleagues and I undoubtedly will discuss it. Some of them may or may not agree with me but in any event I think it is my duty this morning to say that because of the evidence which has been placed before this committee and from the study I have made of this agreement, and because I believe it is better to have an arrangement whereby people can put their feet under the table and discuss exchange and discuss tariffs and international balances than it is if

no conference table is provided, as far as I am concerned I am prepared to support the motion. I do not know whether a motion has been made or not.

The CHAIRMAN: No.

Mr. COLDWELL: A motion to report favourably on this agreement to the House of Commons.

Mr. IRVINE: May I ask a question? I think we had better decide on some course of procedure before we go further. Of course, if we are going to have the discussion now it is all right with me.

The CHAIRMAN: I did not like to interrupt Mr. Coldwell, Mr. Blackmore had just completed an appeal to the chair, and as he made his appeal direct to me as chairman perhaps the committee will be willing that I should depart from the usual practice—it is usual that the chairman should not participate in the debate of the committee but should simply act as chairman. However as Mr. Blackmore did make a rather strong statement with regard to the manner in which the chairman used him respecting the calling of the witness, Dr. Mackintosh, and as he made a direct appeal to me rather than through a motion, I would ask the indulgence of the committee so that I might have a few minutes to answer that statement.

Now, in the first place, may I deal with a minor matter first. Mr. Blackmore suggests that the chair has been unfair to him in regard to the calling of Dr. Mackintosh as a witness. I think the committee will recall clearly that at the opening meeting of this committee I specifically asked that if any member of the committee wished to call any witness to give evidence to the committee with respect to this reference he should make his request immediately because we are all familiar with the time element with which we are faced. I was asked that I should give an undertaking that on a request being made it would be granted. I, of course, replied that I could give no such undertaking; I was in the hands of the committee; and I believe in that regard that no objection was made to the fact that I said I could give no undertaking. We proceeded with our work. We held several meetings. I received no request with respect to calling any witnesses other than the witnesses decided upon by this committee. However, just before the conclusion of our afternoon sitting yesterday Mr. Blackmore sent me a note indicating that he had reached the conclusion that he did wish to call or to have another witness called. I immediately replied to that note to the effect that I would see he had an opportunity to make that request to the committee before the committee would rise from its afternoon sitting. I received a reply from him that he would rather make the request at the opening of our evening sitting. At the opening of our evening sitting I received a letter from Mr. Blackmore requesting that Dr. Mackintosh should be called to give evidence. As luck had it, Mr. Bryce of the Department of Finance was unable to attend our evening sitting last night and Dr. Mackintosh was here in his place, so I was able to produce Dr. Mackintosh immediately for Mr. Blackmore, and Dr. Mackintosh was one of the witnesses, the committee will recall, I was asked to have stand by prepared to give evidence.

Now, Mr. Blackmore objects and says that I insisted on him going on with his examination of Dr. Mackintosh at the evening sitting. I suggest to him that if he will check the record he will find that I urged that he should go on with his examination of Dr. Mackintosh but I did not insist, and I did not state that Dr. Mackintosh would not attend any other meetings of the committee.

Mr. BLACKMORE: Did I use the word "insist"?

The CHAIRMAN: I said it would be highly inconvenient for him to be here, but I did not insist on Mr. Blackmore going on.

Mr. BLACKMORE: Did I use the word "insist"? I do not think I did.

The CHAIRMAN: I do not think I said you did. I am trying to be as fair as I can in my statement and I do not want to prolong the incident, but I do think I should answer.

In regard to the proceedings last evening, there could only be two objections that I can think of to Dr. Mackintosh's examination proceeding at that time: one was if the witness was not ready, and the other was if Mr. Blackmore was not ready. I made that quite clear. The witness indicated very promptly that he was ready to go on. I do not think there is any member of this committee who has spent more time, personal time, in preparation of this subject than Mr. Blackmore, and I think Mr. Blackmore fully realizes that if he were to admit that he was not ready it would place him in a rather uncomfortable position, shall we say. But he did go on finally and he continued his examination until he informed the chair that he had completed it.

Mr. BLACKMORE: Mr. Chairman, that is not right.

The CHAIRMAN: If I exercised any pressure that was unfair, I regret it, and I did not do it intentionally, and I believe the record will bear me out—in fact I am sure it will—that Mr. Blackmore did indicate that he had concluded his questioning of Dr. Mackintosh. I put it to the committee and the committee unanimously agreed that we would dispense with any further evidence from both of the witnesses before us, subject to the undertaking which Mr. Rasminsky gave that he would table in writing answers to a few questions which were outstanding. I am now going to read from the stenographical report, page LLL-1:

By Mr. Blackmore:

Q. I might ask one more question of Dr. Mackintosh and then I will be finished with him.

Then he asked that question. And that led to another question, and he gave this assurance:

I might ask just one more question, and then I will positively promise to stop.

And then after he had asked that question I see this:

The CHAIRMAN: Thank you, Mr. Blackmore. Is it your wish that we should dispense with any further evidence from these two witnesses on the understanding that Mr. Rasminsky will table some time tomorrow written answers to the outstanding questions?

And that was unanimously agreed.

Mr. Low: Mr. Chairman, in order that we might have something to talk about before the committee, I should like to move a motion. I shall not speak to it, but my friend the honourable member from Acadia will speak to the motion.

Mr. COLDWELL: This afternoon?

Mr. Low: Yes, whenever it is convenient. Inasmuch as the Banking and Commerce Committee has not had sufficient time and opportunity to examine competent witnesses, and to study thoroughly the purposes, objectives, implications, and possible penalties for failure of the Bretton Woods Agreements; and inasmuch as it has not been established that Canada would be well advised to ratify the agreements; and finally, because the members of this committee have not yet had time nor opportunity fully to discharge their responsibilities to the people of Canada, I move, seconded by the honourable member for Lethbridge, that this committee now rise and report to the House that Bretton Woods be again brought before the Banking and Commerce Committee at the next session of parliament early enough to provide time and opportunity for the most thorough study and examination of the whole of the Bretton Woods proposal.

Mr. FLEMING: May I ask a question, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. FLEMING: Having regard to Mr. Low's motion, what is contemplated with respect to the bill that has been referred to us? Is it contemplated that we should report to the House with the recommendation for adoption or otherwise?

Mr. Low: No. This simply means reporting the matter of the bill back to the House as not having had sufficient time to give the whole matter thorough consideration, and therefore that it be held over until next session.

Mr. FLEMING: That the bill be not adopted at this session?

Mr. Low: Yes. That is what it comes to.

The CHAIRMAN: Gentlemen, as it is practically 1 o'clock—

Mr. COLDWELL: I was just going to say—without discussing the merits or demerits—that the reference in the motion should be to the bill which is referred to us, should it not?

The CHAIRMAN: Yes. It is practically 1 o'clock, gentlemen, I should like to refer this motion to the clerk of the committee to make sure that it is in order before any time would be spent on it. Therefore if it is the wish of the committee, we will now adjourn until 4 o'clock this afternoon.

Some Hon. MEMBERS: Agreed.

The committee adjourned at 1 o'clock p.m. to meet again at 4 p.m. this day.

AFTERNOON SESSION

The committee resumed at 4 p.m.

The CHAIRMAN: Gentlemen, a motion was made to the committee shortly before 1 o'clock, and as I was in doubt as to whether the motion was in order, you will recall that I reserved decision on it for the purpose of referring the motion to the proper authorities. I have done that, and I should now like to read the ruling, if I may. It is as follows.

The motion before the committee is as follows:

Mr. Low moves seconded by Mr. Blackmore,

Inasmuch as the Standing Committee on Banking and Commerce has not had sufficient time and opportunity to examine competent witnesses, and to study thoroughly the purposes, objectives, implications and possible penalties for failure of the Bretton Woods Agreements; and inasmuch as it has not been established that Canada would be well advised to ratify the Agreements, and, finally because the members of this committee have not yet had time nor opportunity fully to discharge their responsibilities to the people of Canada, therefore,

That this committee now rise and report to the House recommending that Bill 238 be not proceeded with during the present session of parliament, and that the said measure be again introduced at the next session of parliament and referred to the committee on Banking and Commerce early enough to provide time and opportunity for the most thorough study and examination of the whole of the Bretton Woods proposals:

In Beauchesne's Parliamentary Rules and Forms, Third Edition, 1943, at page 197, note 537, it is stated as follows:

537. A committee can only consider these matters which have been committed to it by the House.

A committee is bound by, and is not at liberty to depart from, the order of reference. (B.469).

That is a reference in the Beauchesne paragraph. It continues:—

In the case of a select committee upon a bill, the bill committed to it is itself the order of reference to the committee, who must report it with or without amendment to the House.

The reference to Bourinot I will not take time to read. It is fairly long, but the paragraph 537 in Beauschêne is founded on the Bourinot reference.

The Committee has not the power to recommend that the bill be introduced at the next session of parliament. The committee's duties consist today in either recommending its adoption with or without amendment or rejecting it.

I must therefore rule that the motion is out of order.

I might say that I did go to some trouble to see as to whether a motion could be drafted which would be in order and which would permit the views of the Social Credit party to come before the committee so that we could vote on it, but I have not been able to devise any manner whereby a motion of this tenor could be drafted which would be in order at the present stage of our proceedings.

Mr. IRVINE: Where do we go from here?

The CHAIRMAN: I have suggested, gentlemen, that we should take up the non-contentious sections of the bill, the sections which simply have to do with routine, that they should be carried by the committee, and that the members would reserve what debate and argument they would like to present to the committee for section 2 which, after all, is the main or operative section of the bill. Section 2, you will note, is the section authorizing the adoption of the Bretton Woods agreement. Is that suggestion satisfactory to the committee?

Mr. BREITHAUP: It is to me.

Some Hon. MEMBERS: Yes.

The CHAIRMAN: Then we will do that. We are on section 3 of the bill. Are there any questions or any amendments? If not, I will declare the section carried.

Mr. HAZEN: Might section 3 of the bill be explained? I do not understand that.

Mr. MARIER: Exchange contracts.

Mr. LAFONTAINE: Are you on the bill?

The CHAIRMAN: We are on the bill, section 3. Mr. Hazen has requested that it should be explained.

Mr. MARIER: It is referring to article VIII.

Mr. IRVINE: Who is the explainer here, Mr. Chairman?

The CHAIRMAN: We will try to explain it to the committee as a whole. If you will refer to article VIII, Mr. Hazen—

Mr. HAZEN: I understand it now.

Mr. IRVINE: It is all right, Mr. Chairman.

The CHAIRMAN: Shall section 3 carry?

Some Hon. MEMBERS: Carried.

Section 3 agreed to.

The CHAIRMAN: Section 4. Shall section 4 carry?

Some Hon. MEMBERS: Carried.

Section 4 agreed to.

The CHAIRMAN: Section 5. Shall section 5 carry?

Mr. HAZEN: What is section 5? It says that "the Minister of Finance may pay the subscriptions required from Canada." Then it goes on, "out of unappropriated moneys in the consolidated revenue fund to an amount not exceeding seven hundred million dollars." Is there any gold in the consolidated revenue fund? Because we have to pay part of this in currency and part in gold. Do those words include gold?

The CHAIRMAN: The members of the committee will recall that Mr. Hazen directed some questions to Dr. Mackintosh last evening on this point. While

I may not be correct, my recollection and my understanding of what he said was this, that the gold would be made available for Canada's requirements in this regard by a transfer of gold which is now held in the foreign exchange account. A supplementary question was asked and the witness was asked as to how much gold is now presently on deposit in that account, and for reasons of public policy the witness was unable to give that answer; but he did assure Mr. Hazen that there was sufficient, that there was ample. That is my recollection.

Mr. HAZEN: I think that is right.

Mr. IRVINE: In either case, they could buy the gold in Canada. What is the difference?

Mr. HAZEN: But the authority must come from this Act to transfer that gold, must it not? We are giving somebody—the minister or the government—power to do this. Does section 5 give that power? It may or may not; but as I read it, it does not.

The CHAIRMAN: Once again I am not nearly as sure as I should like to be in answering the question; but my understanding of the matter is this, that any currency or gold owned by the Crown can be transferred by release from the point where it is now on deposit, that it can be transferred and used by the Crown via the consolidated revenue route simply by a release from the present location of the gold, either to the Bank of Canada or to the consolidated revenue fund. I believe the Bank of Canada is, shall we say, fiscal agent—for lack of a better term—for the consolidated revenue fund. I would read the section to mean that we are simply giving the authority for the use of funds and of gold in the hands of the consolidated revenue fund for this purpose, because no money can be paid out of the consolidated revenue fund without the authority of parliament.

Mr. HAZEN: It says, "The Minister of Finance may pay the subscriptions . . . out of unappropriated moneys."

The CHAIRMAN: Yes.

Mr. HAZEN: That is the wording of the section. I do not know enough about it to say if this gold is moneys under the wording of that section.

The CHAIRMAN: No, but I would anticipate that the moneys authorized to be paid by the Minister of Finance under this section would be used to make available the gold which is required. This committee, I take it, must rely largely for draftsmanship of the bill and for the adequacy of the bill on the law officers of the Crown; and unless some member of the committee feels that we should take the responsibility of adding an additional paragraph to the bill to expressly make the gold available, I do not see anything we can do about it. Certainly section 5 in its present form expresses what it intends to express; as to its adequacy to affect gold, I regret I cannot answer.

Some Hon. MEMBERS: Carried.

Mr. HAZEN: I just wished to be sure that the draftsmanship was not wrong. That is the only thing I had in mind. I do not want to hold this up or to call witnesses, but I thought I should call attention to it.

The CHAIRMAN: Thank you for doing that, Mr. Hazen, and I will be pleased to communicate your point promptly by messenger to the proper authorities. If an omission has been made we shall be very grateful to have the omission corrected.

Mr. IRVINE: I cannot see what is to prevent the government from buying all the gold that is loose in Canada if they have access to the currency.

The CHAIRMAN: Shall we allow section 5 to stand until I have made inquiries.

Some Hon. MEMBERS: Stands.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: I think we had better let it stand until we have made inquiries.

Mr. RINFRET: What is the reason for \$700,000,000 instead of \$625,000,000 which would be the total of \$300,000,000 and \$325,000,000?

Mr. IRVINE: American funds.

Mr. MARIER: 10 per cent.

Section 5 stands.

The CHAIRMAN: Then we are on section 6. Shall section 6 carry?

Some Hon. MEMBERS: Carried.

Section 6 agreed to.

The CHAIRMAN: Then we go back to section 1. Shall section 1 carry?

Some Hon. MEMBERS: Carried.

Section 1 agreed to.

The CHAIRMAN: Shall the preamble carry?

Some Hon. MEMBERS: Carried.

Preamble agreed to.

The CHAIRMAN: We are now on section 2.

Mr. FLEMING: Mr. Chairman, may I raise a point, in line with the desire of the committee to clear up all non-contentious items before we come down to the crux of this measure which seems to be contained in subsection 1 of section 2 and some provisions in subsection (2) which follow it. The point I have to raise has largely to do with subsection (3); and in that respect, I have been referring to and comparing this bill with the form of bill 14 as it finally left the hands of the House of Commons. That, you will remember was, the bill that approved the food and agriculture organization agreement, authorized the Governor in Council to do what was necessary to carry it out, laid down requirements as to tabling orders in council and also stipulated that a report should be made from time to time. In the bill we have before us we have provisions which seem to follow that legislation fairly closely. I am not quarrelling with the provisions of subsection (2).

The CHAIRMAN: This is on subsection (3) of section 2.

Mr. FLEMING: I think that subsection (3) contains a valuable safeguard in that it directs that no order in council made under section 2 shall be effective until it is actually gazetted. But there is one provision which I venture to suggest might well be included. You will remember that in bill 14 we had a clause inserted in committee of the whole to this effect. It had to do with the annual report.

The Secretary for External Affairs shall prepare and lay before parliament a report of operations under this Act as soon as practicable after the close of each fiscal year, but in any event within thirty days after the end of each fiscal year, or, if parliament be not then sitting, then thirty days after the commencement of the next ensuing session thereof.

In my submission it would be very valuable to have a similar provision in this bill. In this case I take it that the report should be prepared not by the Secretary of State for External Affairs but by the Minister of Finance. I think it might allay some of the fears that have been expressed by our friends of the Social Credit group if parliament were assured of an annual report on the operations so far as Canada has been involved in the operations of the fund and the bank. I think that a provision to that effect ought to be inserted in this bill either as a separate section or by way of the addition of a fourth sub-section to section 2.

Mr. IRVINE: I understood that was standing.

The CHAIRMAN: Mr. Fleming, would you be good enough—you are familiar with the wording of the proposed subsection 4 which you suggest—to draft such an amendment? We will allow section 2, subsection 3, to stand. If the amendment is not in in time I will see that word is sent to you and we will not carry subsection 3 until that amendment is before us. I should like to have it fairly promptly.

Mr. FLEMING: I can do it at once.

The CHAIRMAN: Because I in turn would like to submit it to the law officers of the Crown to make sure that it does not conflict with any other part of the bill.

Mr. QUELCH: Article 9.

Mr. FLEMING: I will do it at once. I will simply follow the clause that the Crown has approved in bill 14.

The CHAIRMAN: Now, gentlemen, we are on section 2, subsection 1.

Mr. QUELCH: Is this the place where we are going to have the debate?

The CHAIRMAN: Yes.

Mr. QUELCH: Mr. Chairman, I regret in the first place that this bill was not brought down at an earlier date. Plenty of notice was served upon the government in the debate on the Speech from the Throne that this bill would be opposed, and certain members asked that this bill should be referred to the Banking and Commerce committee. However, it has been left to the dying days of the session for this bill to be brought before us. Now we find it absolutely impossible to bring witnesses before this committee that should be brought. We have heard a witness for the defence, a very able one, an expert, but there are no experts in the committee. I think in all fairness to the members of this House that it should have been possible to hear an expert to give the other side of the question. In all courts you have counsel for the defence and for the prosecution. Surely in this case there should have been one not only for the defence but for the prosecution.

Mr. MARIER: There is no defence in this case.

Mr. Low: That is all it is.

Mr. MARIER: You should not have used that term.

The CHAIRMAN: I wonder, gentlemen, if it would not be wise for us to take a moment to decide on the course of conduct of the inquiry. It is my own impression that this is a matter of sufficient importance that each member who wishes to speak should be permitted to develop his argument with full continuity of thought and without interruption. While it is difficult to do that I am going to try —

Mr. Low: For some people.

The CHAIRMAN: —and unless the committee oppose it I am going to ask that every speaker be given the opportunity of advancing his argument without interruption. You can make a note of any objections you have, and all who wish to will have the full right to address the committee. When your own time arrives you can then register your objection to what the speaker is saying.

Some Hon. MEMBERS: Carried.

Mr. QUELCH: We would like to have had the opportunity of bringing before the committee one or two experts of world renown, but as we all realize today it is not possible for a man to go to a booking office and obtain transportation over night, or avoid getting entangled in official red tape and various other difficulties. He must have a warning of several weeks or maybe months ahead in order to be certain that he can arrive here on a certain date from overseas. We have got into touch with certain individuals. Some of them would be pre-

pared to come here but they cannot get transportation. It would be impossible for them to appear here at this time. Therefore, by leaving this measure until this late date it has made it impossible to bring some of the experts that I think should have been brought. For instance, I would suggest one of the experts who appeared before the Ottawa Conference in 1932. I think he would have been willing to come if it had been possible for him to get here. I think he would have made a very great contribution to the debate on this subject.

Another thing I regret is that as we summarize what has taken place we have not the evidence before us. I think it would have been very valuable if we could have had the evidence of Mr. Rasminsky before us in order that we might say with certainty that Mr. Rasminsky said this or he said that. As it is now it may very well lead to argument as to whether or not this or that was his interpretation. At this time I should like to pay a tribute to Mr. Rasminsky. I say that in view of the fact that in the House of Commons I was quite critical of certain experts. I want to make it quite plain that in so far as Mr. Rasminsky is concerned what I said in the House does not apply.

Mr. Low: Hear, hear.

Mr. QUELCH: I think we are all agreed that he did everything in his power to express himself in the clearest and simplest terms.

Mr. Low: Hear, hear.

Mr. QUELCH: He did not resort to the practice of using technical phrases that confuse rather than clarify. He did not adopt the habit that some experts have of becoming sarcastic when certain questions are asked which might have seemed rather frivolous, or of an unnecessary character. Let me admit that if I had not given this matter a good deal of study, especially questions regarding finance, economics and trade, I might possibly have been convinced by the argument of Mr. Rasminsky, but having studied this matter the way I have I may say that as a result of the discussions that took place on Tuesday night and Wednesday I am more convinced than ever that our charges and fears are fully substantiated.

When I asked Mr. Rasminsky questions on Tuesday night I started out by saying that I considered that this agreement had a pro-creditor bias, and I also stated that in my opinion it was a form of gold standard, unquestionably so. The evidence given by Mr. Rasminsky has absolutely and unquestionably substantiated both those charges. The witness admitted the responsibility of a creditor nation to accept payment from a debtor nation in the only way that a debtor nation can pay. That is by accepting goods and services. Furthermore he admitted quite frankly that that has not been the practice of many of the great industrialized nations in the past but, on the other hand, he said that many changes had taken place during the war and he believed that there had been a change of heart. Apparently he hoped that change of heart would continue in the future, but let us remember also that after the war of 1914-1919 there also appeared to be a change of heart. I remember when I was over in England at that time listening to Canadians, Englishmen and Americans discuss the question of war debts. They said it was unthinkable to suggest that those war debts would ever have to be paid. Some of the congressmen of the United States expressed views very forcibly at that time along similar lines. Yet we all remember how nine or ten years later a great deal of friction developed because in that nine or ten years there had been a change of heart. Does anybody really think that this change of heart that has come about during the war, this form of idealism, is going to continue? Do we not all realize that as time goes on bitterness may develop, and whereas a change of heart now may bring a nation to feel that it should fulfil its obligations there may be an entirely different point of view, nine, ten, fifteen or twenty years hence.

If, as the witness said, a change of heart has in truth taken place, if these great industrial nations to-day do truly realize they have a very definite responsibility of accepting payments from a debtor nation in the only way that a debtor nation can pay, and if they are really sincere in that why are they not prepared to have an article put into the Act which will prove their sincerity in this matter? There would be no difficulty. It would not be a question of world government. It would not be a question of imposing any more pressure on a creditor nation than is being imposed on a debtor nation at the present time.

Mr. BLACKMORE: Britain, for example.

Mr. QUELCH: What we want in the act mainly is a provision that a debtor nation in order to pay for its imports shall be recognized as paying for them when they establish a credit within their country in favour of a creditor nation and that that credit can be used to buy anything purchased within that country. Then if the creditor nation is not willing to accept goods from a nation with which it has a credit if it desires to trade on a multilateral basis it may trade the credit established on that basis for the credit of another country on a multilateral basis. So I say if the great industrialized nations are really sincere in this matter they should have shown it at this time and been willing to have an article to that effect put in the Bretton Woods agreement.

Some will say the fact it is not there shows that the experts were not interested in that matter. Again let me refer you to the plan put forward by Maynard Keynes, the international clearing union, in which he stresses at some length the need for that being done. I have not brought a copy down, but I did read that into the record here on Wednesday morning, I believe. He said we might have to provide for cancellation of credits where nations did not use them, and in his preface he stressed the responsibility of the creditor countries.

The second point, and one which has become a very controversial subject is whether or not the Bretton Woods agreement constitutes a form of the gold standard. At no time have any members of this group said or even suggested that this was in any way similar to the gold standard of 1925 or 1914. We merely said it was a form of the gold standard. In asking Mr. Rasminsky questions I pointed out that when a nation reaches a position where it has exhausted its rights to obtain currency from the fund and has an unfavourable balance of trade then it will find itself in exactly the same position as it would under the gold standard. The only way then that it can meet its obligations is by payment of gold or by borrowing. There is no other way out unless, of course, the creditor nation is prepared to accept goods from it in order that it may obtain currency of the creditor nation. Apart from that then it is forced to either find gold or go into debt. I put that to Mr. Rasminsky. I said, "Is that not definitely a form of gold standard?" He said, "to that extent, yes, it is a form of gold standard." That was the point, of course, that we were anxious to make.

It is interesting to note under this agreement that gold will be the only commodity in the world that a creditor nation is obliged to accept in payment of its debt. I realize it is not done directly. It is done via the fund. That makes no difference, and the witness agreed with me, no substantial difference. What is bound to be the result of that situation? It is all very well to call it a breathing spell, but they will not be able to breathe very long under a proposal of that kind, because when you realize the size of nations' unbalances of trade and the fact they can only borrow up to 25 per cent of their quota in any one year they will not even be able to obtain enough currency from the fund to pay off the unbalance of trade. So it will not in reality prove a breathing spell. The situation that will face a debtor nation will be this. They will either have to cut down their standard of living to the very minimum, cut off imports, which will be contrary to the purpose of the fund, because the purpose is supposed to be to expand trade, and if a nation as a result of this is forced to cut down imports

and reduce its standard of living to the minimum it would be directly contrary to the purpose of the fund. Instead of the fund helping to bring about an expansion of trade it will be helping to develop economic nationalism, the very thing it is supposed to prevent.

I do charge that under this Act that is exactly what will happen, the intensification of economic nationalism once the fund has been exhausted. It has been said that there are several alternatives, the only alternative will be that the creditor nation will offer the debtor nation loans. And what happens when it makes loans? It takes securities, it takes securities on its resources, it takes securities on its capital assets; and a creditor nation instead of being willing to accept the payment in goods will demand payment in capital. By supporting this we are supporting the most vicious form of imperialism you can have; true, not imperialism by the force of arms, but imperialism by monetary penetration. And we charge that this is not only a form of gold standard but in many respects it would be even worse because it has certain features which were not included in the gold standard. Under the gold standard nations could devalue their currency to any extent. It is all very well to say that it would be sacrilege under the gold standard to do that, but nevertheless they had that right. Under this measure a nation has the right freely to devalue its currency up to 10 per cent, but when it goes beyond that it has to obtain the consent of the fund, and the fund may object, and if action is taken in spite of the objection of the fund, under section 6, Article IV, it may be expelled from the organization.

Now, some members argue; well, why not try out Bretton Woods; why not see what the effect will be? But let me point this out; if a nation defaults, it is true it can withdraw; but when you build up any international organization to meet a certain problem and then that international organization fails to accomplish its aim, by the time it has failed the problem would have grown considerably and may have reached unmanageable dimensions, and the situation by then may be far more difficult to meet; and I would say that in view of the fact that it fails to deal with the fundamental issues involved it is bound in the final analysis to fail to solve the problem. Therefore, it does seem to me that when the main point of the problem is as obvious as it is today and when the solution to that problem is also obvious, then I think the nation should have the sincerity to adopt that solution to meet the problem. And, as the witness admitted, the obvious problem is to get creditor nations to accept payment in goods and services. The obvious solution is to allow the debtor nations to pay in goods, to establish a credit in favour of a creditor nation. That, of course, is the obvious solution, and one that will be opposed by large industrialized concerns who hope to extend their resources by capital investment abroad. Today we find that the great industrialized nations are talking in terms of foreign investment, Canada along with the rest. I think we must all realize that just as long as some nations insist on maintaining a favourable balance of payments there are bound to be other nations that must consequently have an unfavourable balance. And the fund merely, as I said before, provides a breathing spell for a few years. In view of the fact that a nation can only draw up to 25 per cent of its quota from the fund in any one year, when you study the size of the balances and the unbalances of trade in the past the amount a country can draw will not be sufficient to meet its unbalances of trade. Remember that Canada during the five years before the war had a favourable balance of trade averaging \$218,000,000 a year. The amount that she could draw on the fund would be \$75,000,000 in any one year. I just quote these figures to show the possible size of the unbalance, because do not forget that when some nations have a favourable balance of trade others must have an unfavourable balance. The unbalances of trade will be far in excess of the amount of money that can be drawn from the fund to settle them, the idea being to draw just enough

money to permit the servicing of these balances. And I would say that this does not solve the question of the unbalance of trade, it just helps to hide it; because when you obtain money from the fund you are borrowing money. You aren't using your own, you are borrowing money for the purpose, and therefore you are just hiding the unbalance of trade. It is true that when I first said that a country borrows from the fund the witness, Mr. Rasminsky, disagreed, said no, a nation buys foreign exchange from the fund with currency. When I asked him whether when a country's currency went out of the country it was not incurring a debt he agreed with me, he agreed that when a nation used its currency for the purpose of buying foreign exchange that currency becomes a debt against that nation. Therefore, when you use the fund you are going into debt.

Now, on the final point that I want to make I want to deal with the question of withdrawal under article XI. We charge that the loan to Great Britain by the United States has largely been used as a club to force Great Britain to join the Bretton Woods agreement, and I think that that charge can be fully substantiated. In order to prevent Great Britain from having hungry people Great Britain had to obtain a loan at this time, and that loan is dependent upon England signing the Bretton Woods agreement. So when people charge that a club was not used in order to get Great Britain to sign the Bretton Woods agreement, they are not stating the facts of the case. One has only to refer to the statement made by Ernest Bevin who a few months ago stated that he was definitely opposed to the Bretton Woods agreement, but apparently sufficient pressure has been placed upon Britain so that they had to agree to it.

When the member from Lethbridge (Mr. Blackmore) made that statement some of the members objected and said that a nation can withdraw. People must be very naive if they accept a statement of that kind, that a nation can join one day and withdraw on another. Surely no one really thinks that can be done. What would be the sense of saying that you can have a loan providing that you join Bretton Woods if there was any danger that the very next day such a nation could withdraw? I think it is obvious that it cannot be done. And there are other reasons why a nation could not withdraw, would not withdraw if they had the right to, because if they withdraw then article XI becomes operative; and as I recall article XI, I still maintain that a non-member nation is subject to a boycott by the members of the fund. And that was one of the points on which I was not able to get what I considered to be a satisfactory answer from the witness. He agreed with me that a creditor nation had the responsibility of balancing its trade. He agreed that in the past these credit nations had not carried out their responsibilities. He agreed that Bretton Woods was a form of gold standard: But he disagreed with me on article XI, that under certain circumstances members might be compelled to institute a boycott against non-member nations.

But now, I want to read section 1 of article XI:

(i) Not to engage in, nor to permit any of its fiscal agencies referred to in article V, section 1, to engage in any transactions with a non-member or with persons in a non-member's territories which would be contrary to the provisions of this Agreement or the purposes of the fund.

And now, I wish to refer to section 3 of article I, which reads as follows:

to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

Now, if any nation withdraws from this organization, under section 6 of article IV, having devaluated its currency beyond the limit it is then in a position to undersell other nations. And this is what could very well happen,

whether we call it black market operations or not; members of the fund desiring goods as cheaply as they can get them may buy goods from that nation whose currency is devaluated. At the same time within the fund you may have other nations anxious to sell those members their goods. The member who has withdrawn and devalued its currency will have definitely an advantage over those members in the fund; therefore, those members if they want to compete on an equal basis with a member which has withdrawn will have to devalue their currency, and that will be defeating the purpose of the fund, because the purpose of the fund is, as I read from Section 3, article I, to prevent competitive exchange depreciation.

Again, to back up my statement, I would like to quote from Paul Einzig, who is recognized as one of the leading world authorities on financial questions and he makes the same interpretation as I have given here. He says, "under article XI, the board of international financiers is given powers to declare economic war on Great Britain should she devalue sterling against the board's wishes. All the United Nations (including, let it be noted, the British Dominions) will have to undertake to boycott and blockade this country in such event". And I am satisfied that that is exactly what article XI provides for. If anybody is anxious to know the qualifications of Paul Einzig I am quite prepared to put them on the record here. I would say that he is probably one of the most outstanding authorities on financial matters in the world to-day; and he is one of the men whom we would like to have called and to have had before this committee, because he has taken a very active stand against the Bretton Woods agreement. When we have one expert to give one side of the argument, we should have another expert to give the other side. It is not fair to expect laymen to be able to hold their own with a man who has made this subject his life study.

Now, we have made a good job of winning this war. We made a good job of winning the war of 1914-1918, we were filled with high hope of permanent peace. Then our statesmen made a ghastly mess of the peace and we had a series of disagreements between the nations one after another until in the end chaos reigned. Well, we are having a job winning this peace and, of course, the people of Canada and the people of the world are wondering if we are again going to repeat the mistake we made after the last war. To my mind, in Bretton Woods we will be doing that very thing.

The member for Rosetown-Biggart this afternoon stated that he was supporting the Bretton Woods agreement because, I think I am using his words, because it is good for Canada—

Mr. COLDWELL: It is good for the world.

Mr. QUELCH: And you said, Canada to, I believe.

Mr. COLDWELL: And, for Canada.

Mr. QUELCH: That is it, I wrote it down.

Mr. COLDWELL: Good for Canada.

Mr. QUELCH: That is a point. The member for Rosetown-Biggart (Mr. Coldwell) has never been one to adopt narrow provincialisms or nationalisms.

Mr. COLDWELL: No, I think it is good for the world.

Mr. QUELCH: He has rather taken the broad view, perhaps because of the fact that in his opinion it is good for Canada. And then I would like to point out this, that I think the point of view was that we must decide this as Canadians, not on the basis of Britain.

Mr. COLDWELL: That is quite right. Now, what I think I said was that in so far as Canada itself is concerned I do not think it can do any harm.

Mr. QUELCH: Probably not, on account of the fact that Canada is a producer of gold, and as was pointed out in the White paper, expects to be a creditor nation.

Being a producer of gold on a very large basis naturally it will not hurt Canada; but there are only four major gold producing nations in the world to-day, and for every creditor nation there must be a debtor nation.

Mr. COLDWELL: What are the four?

Mr. QUELCH: I would say that the four large gold-producing nations are Russia, Australia, South Africa and Canada. The United States holds the largest reserves. Probably Russia is the greatest producer of all, although the gold is low grade. You asked for the gold-producing nations, not the creditor nations. Nobody can say what are the creditor nations, but there are some that are definitely creditor nations. So to those who say that we should judge this from a Canadian viewpoint, let me issue this warning: what is there in it for Canada? As a strictly business affair this may not hurt Canada, but Bretton Woods is a world concern, it does not just deal with Canada, it deals with the world at large; and if as a result of this we breed discontent, ill-will in any nation, we may very well be kindling a spark that at some future date may burst into a flaming war. If that comes about is anybody going to suggest that that would be good for Canada? I say you cannot judge this from the point of view of economics, whether it is good for Canada or not; you have to judge it from the point of view of whether it is good for world peace, and if many nations are going to suffer as the result of it. I say that you may very well be sowing the seed of world war No. 3.

Mr. BLACKMORE: Mr. Chairman, one of the things that has completely amazed me since we commenced the discussion on Bretton Woods is that the conclusion regarding Bretton Woods had already been made up for us before Bretton Woods was even published. Just the very minute that the Bretton Woods Conference was announced and its findings were announced all the newspapers were positive that it was the best thing in the world and all the politicians were positive that it was. Even although they had not examined it they knew it was the right thing. Now, the agreement comes to Canada and we find that nearly every parliamentary member, whether he knows anything about it or not, is sure it is right. That indicates a most astonishing situation. First of all I want to be perfectly frank with the members of the committee. After all I am just as human as you are. I have no ulterior motives whatsoever in opposing Bretton Woods. I am not gaining any political advantage at all; in fact at the present time this little group make themselves exceedingly unpopular. They are attacked throughout the country as fools and so on, by newspapers—

Mr. Low: *Globe and Mail* and such papers.

Mr. BLACKMORE: What reason would we have for opposing anything like this? Why not become part of the gigantic rubber stamp and come down with complete ease and slide out and take the \$2,000 and go home? Why not? There must be a reason. Now, what do the honourable members imagine that reason might be? There must be some reason. Men do not fight and risk their health, exerting themselves, in doing great quantities of hard work, as we have been doing in the last week or so and as I have been doing for the last ten weeks, unless there is some motive. I say that as man to men in the committee, Mr. Chairman, before I commence discussing this whole question.

Now, we have argued this matter in the House of Commons until we were in danger of being mobbed and being thrown out, and we were threatened with closure. I do not know if there is very much need of repeating those arguments here, they are on *Hansard*, they can be read; but I would like to draw the attention of members of the committee to about three or four considerations that may constitute the reason for a great deal of reservation.

Now, if I were buying a horse and a man tried to sell me a horse and he kept me looking at just one side of that horse, every time I went—

Mr. IRVINE: Which side?

Mr. BLACKMORE: —and every time I went to walk around the horse to look at the other side he turned the horse so I could not see the other side, I would begin to be suspicious. And if a man wanted to sell me a farm and he insisted on my going out to see the farm in the winter time when I could not tell whether there were weeds on the farm or not, I would be suspicious. Now, there are aspects of this whole matter that to me are very suspicious, and the first one of these is that the newspapers just burst out into a peal of adulation regarding this thing the very minute it was mentioned. It was astonishing, the unanimity which prevailed. It does not matter how good this thing is, Mr. Chairman, it is not as good as that. That ought to cause any man to be just a little careful. Let me point out several things which in my mind, just as a poor ordinary common run of human being, cause me some anxiety; in fact they constitute to me evidence of a sinister influence if not a sinister design in this whole matter. For you know that if a group of evil people were seeking to accomplish an evil deed they certainly would do everything in their power to make the deed look holy and righteous; so that we must not imagine that because every aspect of this is made to look holy and righteous that it necessarily is holy and righteous either in its nature or its origin.

May I direct the attention of members first of all to the sugar coating which you find everywhere on this thing. Now, whenever I find a pretty deep tasty sugar coating I suspect a particularly nauseating pill under the sugar coating.

The CHAIRMAN: Or a particularly good chocolate cake.

Mr. BLACKMORE: Yes, one of the two.

Now, I wish to refer to things which are familiar to you all and which you have seen passed before you as important. May I turn to page 3087 of *Hansard* where the Minister of Finance was introducing this measure in the House, and read the following words which I desired to put before one of the witnesses yesterday? They are these:—

That issue is: are we and other countries to organize and co-operate for peace, or is each nation going to use its strength and resources at the expense of others in a struggle for survival?

That sacred word "peace"; because people have been lashed into a frenzy over the word, and all you need to do is mention peace with respect to even the infernal regions and people will be interested. So the minister says that the main reason or probably the main reason for considering this measure is that it will bring on peace. Now, Mr. Chairman, I will defend at length the proposition that there is not in Bretton Woods one single solitary aspect that can possibly make for world peace, because there is not a single thing in Bretton Woods that strikes at the cause of war, and the cause of war is nations in unrepayable debt or in danger of unrepayable debt. All that Bretton Woods does is put the debtor nation under an additional handicap. I think that proposition cannot be successfully controverted. It may be denied with a flourish of the hand and a toss of the head as though the person who advocated it were some kind of a fool, but that is no argument. You noticed how many times Mr. Rasminsky when under questioning stated it as his opinion; he was sure it was but he did not prove it. If we had the *Hansard* of this committee, which unfortunately we have not, and which is one of the serious aspects of this whole thing—if we had the *Hansard* we could show that time and time again when most important questions were asked involving the most important answers all he could do was give the statement of Mr. Rasminsky. And he was all the witness that we had.

Now, that is serious in my judgment. This Bretton Woods agreement is said to attain economic co-operation. This is shown by Mr. Ilsley's remarks on page 3089:

When the great depression struck, each country had to cope as best it could with the situation. For all, the prime consideration was to deal with unemployment, and the means of domestic recovery which appeared most practicable consisted of measures whose effect was to thrust the burden of the depression abroad. The result was the strangulation of world trade and the mutual impoverishment of all countries. The characteristic features of world economic relationships before the war were high and discriminatory tariffs, import quotas, export subsidies, depreciated currencies of uncertain value, discriminatory clearing agreements, multiple currency practices.

And he goes on to say that in no quarter of the House was there a desire to see the world return to those pre-war practices. Surely the average member of the House did not fail to notice that Mr. Ilsley did not point out that there was anything in Bretton Woods to prevent the recurrence of the depression, or if when Bretton Woods were in complete power over the world through the coming depression there is nothing to show that every nation would not have to indulge in a mad scramble to protect employment at home. There is just a gap left there in the reasoning and the audience is left to fill in the gap with some such fallacious conclusion as this: "Oh, Bretton Woods. We will put it in and then there will be no chance of having those currency practices and those discriminations." Now, no man is justified in drawing any such extravagant conclusion. The purpose of the questions I asked Mr. Mackintosh here last night—questions which I would have asked in greater detail and with much more precision if I could have had just an hour or two to prepare myself—was to make it abundantly clear to all people that there was nothing in the world in this Bretton Woods agreement that could prevent the United States, we will say, from ceasing foreign lending, the first step in the depression; raising the discount rate by the federal reserve board, the second step in the depression; loss of confidence in the security markets, the third step in the depression; general withdrawal of currency and circulating media throughout the nation, the fourth step in the depression; fall in prices, the fifth step in the depression. There is not one single thing in Bretton Woods, either by stipulation or by implication, that could prevent any one of those five steps from occurring again, which means that there is not one single thing in Bretton Woods that could stop a depression. When the witnesses were questioned narrowly on the matter, they gave you evasive, unsatisfactory, and unsubstantiated opinions; and I will ask honourable members, when they get the *Hansard* of the committee, to go and examine those words and tell me whether or not I am right. I am sure I am right. Well then, to propose Bretton Woods as a remedy against depression is simply foolish; and to propose Bretton Woods as a remedy against the evils which resulted in other nations from the depression in the United States, is folly.

I asked Mr. Mackintosh a very pointed question as to the causes of the war, and if I had had a little more support from the members of the committee—which I did not have—I would have pressed him more on this question; because Mr. Ilsley tried to tell us, or to convey to us, that Bretton Woods would guarantee peace. Well, Bretton Woods could not guarantee peace unless Bretton Woods could guarantee to remove the causes of war. And if the depression caused all those nations to adopt exchange control, currency revision and that kind of thing, and that resulted in war—if the depression caused all that, and if Bretton Woods could not prevent either the depression or the results, surely Bretton Woods is no solution to the war problem, and it is no means of gaining economic co-operation.

I ask any man in the committee to answer this question: if the United States begins to sell goods—shoes or any other commodity—in, we will say France, underselling French factories—which it can do under Bretton Woods—displacing French workmen, putting them on the unemployed lists—which it can do under Bretton Woods—is that in any way bringing about economic co-operation and goodwill between the United States and France? Well, no one would be deluded or should be deluded by any such suggestion as the one that Bretton Woods will prevent economic discord in the world and bring about economic co-operation.

Mr. Ilsley stated that the real principle of this bill was economic co-operation when, as a matter of fact, we find in this committee that the real principle of this bill is Bretton Woods. Well, is not that a sugar coating on the pill? What have we been considering here in this committee? Is it economic co-operation and how to obtain it, or have we been considering Bretton Woods?

Every possible kind of economic warfare is possible under Bretton Woods. Economic warfare does not consist in exchange control, tariffs for protection, quotas, or currency devaluation. Let us take Canada as an example. What caused Canada to raise tariffs? When Canada raised tariffs, was Canada indulging in economic warfare or was she indulging in economic protection? Who was warring against Canada that caused her to adopt tariffs? Well, United States industries were warring against Canada. Was Canada adopting economic warfare when she used exchange control during the war to keep the people from buying too much goods from the United States? Well, of course she was not. She was adopting economic protection. Who was engaging in the warfare? United States industries. Surely if that is not evidence that Bretton Woods is utterly powerless to prevent economic warfare, that it does not even dream of preventing it, I do not know what additional evidence would have to be brought forward. And yet we are told here that Bretton Woods is designed to prevent economic warfare. Not only does the minister say this, but whoever wrote up the white paper on employment and income which was presented to the House in April of 1945, said the same thing. May I read honourable members from page 7 this sentence: "It"—referring to Bretton Woods—"would outlaw the discriminatory currency practices which turned trade into economic warfare." Mr. Chairman, I ask the honourable members of this committee, this: is there a member in this committee who does not detect an absolute fallacy in that statement, in the light of what I have said? The tariffs Canada has used for generations were certainly not economic warfare against the United States. They were economic protection. The devaluing of the Canadian dollar certainly was not a measure of economic warfare. It was a measure of economic protection against the warfare coming from the United States. Is it not obvious, and patently obvious, that the statement in that sentence is a fallacy? Well, if statements like that are the best that can be used as reasons why we should adopt Bretton Woods, it seems to me that beyond question we are getting arguments showing why we should not adopt Bretton Woods. But in every case the aim is to put a sugar coating on the pill, to make the thing look like what it is not.

Now, there is much misrepresentation of Bretton Woods in every direction, which constitutes the next reason for opposing it. If a man were trying to sell me a horse again, and he told me that the horses' feet were entirely sound, and I walked around and found that there was a flaw in one of the hoofs of that horse, do you suppose I would believe anything else he said after that about the horse? Would any one of the members of the committee? The government has told us time and again, and the government experts and the advocates of Bretton Woods have told us time and again, that Bretton Woods does not involve the gold standard. May I refer to Paul Einzig, to whom the honourable member for Acadia referred a few minutes ago, and what he says about it. Shall I read you

what Paul Einzig says regarding this matter of the gold standard? Certainly a man with the standing of Paul Einzig knows as much about it as Mr. Rasminsky ever did.

An Hon. MEMBER: That is a matter of opinion.

Mr. BLACKMORE: Exactly. Everything is a matter of opinion. But he has got a very good chance of knowing, has he not? Did the honourable member for Acadia read his qualifications?

Mr. QUELCH: No.

Mr. BLACKMORE: Let me read the qualifications of Paul Einzig. You will get this from "Who's Who," 1944, page 839.

Paul Einzig, D.Sc., Politics and Economics (Paris); Foreign Editor of the Financial News and of the Banker. Educated at Brasov; Oriental Academy of Budapest; University of Paris. Paris Correspondent of the Financial News, 1921; Foreign Editor, 1923; Political Correspondent, 1939; British subject by naturalization, 1929. Publications: *Le mouvement des Prix, 1923*; *International Gold Movements, 1929*; *The Bank of International Settlements, 1930*; *The Fight for Financial Supremacy, 1931*; *The World Economic Crisis, 1931*; *Behind the Scenes of International Finance, 1931*; *The Tragedy of the Pound, 1932*; *Finance and Politics, 1932*; *Montagu Norman, 1932*; *The Comedy of the Pound, 1933*; *The Economic Foundations of Fascism, 1933*; *The Sterling-Dollar-Franc Tangle, 1933*; *Germany's Default, 1934*; *The Economics of Rearmament, 1934*; *Exchange Control, 1934*; *France's Crisis, 1934*; *The Future of Gold, 1934*; *World Finance since 1914; 1935*; *Bankers, Statesmen and Economists, 1935*; *Exchange Clearing, 1935*; *Monetary Reform in Theory and Practice, 1936*; *The Theory of Forward Exchange, 1937*; *World Finance 1935-37, 1937*; *Will Gold Depreciate?, 1937*; *Foreign Balances, 1938*; *World Finance, 1937-38*; *Bloodless Invasion, 1938*; *Economic Problems of the Next War, 1939*; *World Finance, 1938-39, 1939*; *Economic Welfare, 1940*; *World Finance 1939-40, 1940*; *Europe in Chains, 1940*; *Hitler's "New Order" in Europe, 1941*; *Economic Warfare, 1939-40, 1941*; *Appeasement Before, During and After the War, 1941*; *Can We Win The Peace?, 1942*; *The Japanese New Order in Asia, 1943.*"

The CHAIRMAN: Order, gentlemen, I think the member has a right to a good hearing.

Mr. FULTON: It seems to me that he must have had lots of opportunity to be wrong, with all those books.

Mr. BLACKMORE: Exactly. But the important thing is that every one of these books, as far as I know, is accepted as a world authority. You will find these books down in our parliamentary library; and the more of these books you read, the more impressed you are with the wisdom and understanding of this man. Surely a man with that experience is a man worthy of consideration.

Now let us look at what this man says about Bretton Woods and the gold standard. I am reading from an article which was published in the *London Daily Express* of August 10, 1944.

This is what he says:

Yet once the plan is translated into intelligible English and is denuded of all camouflage, every layman of normal intelligence is bound to realize that it is the gold standard, the full gold standard, and nothing but the gold standard.

Admittedly, it is a different gold standard from the one we abandoned in 1931, just as the gold standard adopted in 1925 was different from the one suspended in 1914. But the changes are, for the most part, considerably for the worse.

He gives the following details.

(1) Under the old gold standard the value of sterling was legally fixed in terms of a given weight of gold. This will be precisely the same under the new gold standard.

(2) Under the old gold standard our monetary authorities were under the obligation to buy and sell gold freely at a fixed buying and selling price.

This will be the same under the new gold standard, with the difference that gold will not be available for internal hoarding. But then even under the gold standard of 1925 the authorities had the right to call in hoarded gold in excess of £10,000 so that this difference is not very important.

(3) Under the old gold standard sterling was allowed to fluctuate within a range of about 1 per cent. Under the new gold standard its range of fluctuations has been rigidly fixed at 1 per cent.

(4) Under the old gold standard there was no limit for the fluctuation of the price of sterling for future delivery. In this respect the new gold standard is much more rigid, for under it a limit will be set also to the fluctuations of "forward" sterling.

When, before 1931, British export trade was handicapped by the unduly high exchange value of sterling, the cheapening of the price of 'forward' sterling bought in advance by foreign importers to pay for British goods to be delivered later provided some relief. Under the new gold standard there can be no relief.

(5) Under the old gold standard it was possible for this country to suspend the system or to devalue sterling—if members want me to read very slowly and take a lot more time I will.

The CHAIRMAN: You are getting on very well.

Mr. BLACKMORE: The point is if they think they have to talk right up to my voice then my voice is not going to be there very long. Surely material of this sort coming from an authority of that kind is worthy of the most careful attention of every member of the committee. This man must rank far higher than Mr. Rasminsky.

—to any extent by simple government decision, subject to confirmation by parliament, without having to ask for the permission of any outside body, indeed, without having to consult anybody about it.

Under the new gold standard, on the other hand, it will be necessary to obtain the permission of an international board, on which our trade rivals will control the majority vote, for any devaluation in excess of 10 per cent.

Mr. Chairman, how can any member assume that the Bretton Woods proposal does not involve the gold standard in the face of a declaration by an authority of that calibre? Yet the advocates of Bretton Woods maintain stoutly it does not involve the gold standard. What are they doing? They are simply lying or they are completely deceived.

The CHAIRMAN: What other yardstick of value would you suggest?

Mr. BLACKMORE: I will be very glad to answer that, but suppose I complete my speech first and then you can ask me questions. I would be happy to deal with that. Social Creditors are not advocating their theories but they are ready to. What Social Creditors are doing is opposing what is being advocated. We understand that is our business as the opposition.

Mr. MICHAUD: Is it important?

Mr. BLACKMORE: It is exceedingly important. There is unquestionably an attempt to misrepresent Bretton Woods. To show you that Paul Einzig is not the only one I believe hon. members would be interested in the words of another

authority. It will not take so long to read this man's words. This man, too, is a big man. I am reading from the *Fortnightly Review*, an article by a man named Schwarz who was co-editor of two Paris economic weeklies from 1935 to the outbreak of the present war and economic consultant to various British, American and French firms in Paris. He is a graduate of Lausanne University, a contributor on economic and political subjects to journals in Paris, London and New York. Surely the man must have some standing. This is what he says. I am reading from page 205.

Mr. JAENICKE: What is the date?

Mr. BLACKMORE: The date is 1944. It is new series 156. It is pretty well up to date. The article is in the October number of the *Fortnightly Review*. Here is what he says about Bretton Woods:

(1) The role of gold: Bretton Woods sets up a new gold standard. There is no qualification to it at all. Do you see that?

Any attempt to explain away the provisions of Fund Agreement Art. IV, Sec. 1, (a), on this point is condemned to failure. It may be better or worse than its pre-1914 or 1925 predecessors. That is open to argument. What is not open to argument is the fact that its reintroduction is in the overwhelming interest of the U.S.A. which, with a gold stock of 20,000 million dollars, is fundamentally concerned in preventing its demonetization. Present monetary technique is sufficiently developed to permit the maintenance of reasonably stable exchange rates and stable price levels without currencies being linked to gold. But for the survival of fetishistic conceptions about the role of gold and vested interests in the gold-mining industries of the world, the metal would by now be well on the way towards losing its monetary functions.

Surely there are two authorities who must be respected. In the views of men all over the world the contention is almost passionately made that Bretton Woods does not involve the gold standard. That is misrepresentation.

We heard Mr. Rasminsky argue before us that there was no power in Bretton Woods, that it did not have power to compel a nation. May I ask why the extravagant claims which are made for what it can do if it had no power? Why does Mr. Roosevelt say it is able to do such big things as he said it was able to do on February 13, 1945, in Washington? Why did he say it was the key to economic co-operation? I will read a few quotations from what he said. This is from an associated press despatch dated Washington, February 13th. I took it from the Lethbridge *Herald* of February 13th, the back page.

Cautioning that the future "is full of promise and danger", President Roosevelt called on Congress to carry out the Bretton Woods agreements for world economic co-operation. "It is time", he said, in a message to Congress released at the White House, "for the United States to take the lead in establishing the principle of economic co-operation as a foundation for expanded world trade."

Now we have really got something. Then, going on:

"The President said the Bretton Woods plan is the 'cornerstone for international economic co-operation as the Dumbarton Oaks plan is the cornerstone for international political co-operation.' "Moreover," he continued, "the proposals drafted at Bretton Woods, New Hampshire last July constitute a means of seeking within the united nations the goals of more goods produced, more jobs, more trade, and a higher standard of living for us all."

These are easy things to say, but I will wager that Mr. Rasminsky and all the experts we can call in Canada cannot prove a single one of those things. They could not last night and they could not yesterday. But you see according to President Roosevelt the thing must have tremendous power.

Take what Henry Morgenthau said in his speech to the delegates at page 9 of the parliamentary copy of the United Nations Monetary and Financial Conference. He says this:—

This is the alternative to the desperate tactics of the past—speaking of Bretton Woods—

competitive currency depreciation, excessive tariff barriers, uneconomic barter deals, multiple currency practices and unnecessary exchange restrictions—by which governments vainly sought to maintain employment and uphold living standards. In the final analysis, these tactics only succeeded in contributing to world-wide depression and even war. The international fund agreed upon at Bretton Woods will help remedy this situation.

I am not saying that he necessarily says there it has a great deal of power but he makes very wide claims, and those claims cannot be substantiated and have not been before this committee. Why does the white paper to which I referred a few minutes ago, issued by Mr. Howe, say of Bretton Woods that it would outlaw the discriminatory currency practices which turned trade into economic warfare? Outlaw! Does that sound as though it had no power? Mr. Hsley said it would bring peace. If it has no power how can it be said it can accomplish all these objects?

The CHAIRMAN: Before you enter a new trend of thought in your speech might I interrupt just a moment to remind you of the arrangement to which you were good enough to assent that you would confine your remarks to forty minutes. There are five minutes to go, and while I know that the committee would not want for the sake of a few minutes to curtail you in expressing your views I think it is only fair that I should let you know that you have spoken for thirty-five—really for thirty-eight minutes now.

Mr. BLACKMORE: If the whole project has no power why is the United States so insistent on it? She insists on having the Bretton Woods arrangement. If it has no power to bind why is she insisting on it? Why did she insist that Britain sign it before she would allow her to have the loan? Surely it must be obvious that somebody is wrong somewhere.

Mr. IRVINE: Is that really the condition? I think it is very important to know that. Is that really the condition? Have you any authority for saying that?

Mr. Low: I will give you some stuff later.

Mr. IRVINE: I do not mean opinions or suspicions. I mean facts.

The CHAIRMAN: Mr. Low says he is going to cover that point so perhaps we should not interrupt Mr. Blackmore.

Mr. BLACKMORE: I go on to another aspect of the question. If the Bretton Woods agreements are beneficial and harmless as our advocate argued they were why the obvious anxiety to avoid thorough investigation and understanding? Why was the thing introduced so late as a bill in the House of Commons?

The CHAIRMAN: I do not really think you have considered those words carefully. It is hardly fair in the absence of the chairman of our Foreign Exchange Control Board for a remark of that kind to be made. Surely you can develop your argument without making a personal attack on a man who has made a real contribution to the financing of this country's war effort.

Mr. BLACKMORE: I was not aware that I made a personal attack. If you find any words in the record that constitute an attack strike them out. You may do it for me.

The CHAIRMAN: Thank you.

Mr. BLACKMORE: The late introduction of the bill right near Christmas with the members worrying about \$2,000 and closure threatened—

Mr. Low: Make that \$2,000 clear.

Mr. BLACKMORE: The fear that the bill granting the \$2,000 would not be passed before Christmas.

Mr. JAENICKE: That is not a very good reflection on the members of this House.

Mr. BLACKMORE: If it is necessary we will withdraw it.

Mr. COLDWELL: Strike it out of the record.

Mr. BLACKMORE: I do not want to argue with anybody, but all I am telling you now is what people have told me around the House.

Mr. IRVINE: Unless you are speaking for yourself.

Mr. BLACKMORE: If I were speaking for myself do you suppose I would be standing here? I guess not. What word shall I use concerning the study the Banking and Commerce committee has made of the whole thing? I pointed out this morning that when we revised the Bank Act in 1944 the hearings began on March 21 and closed on August 10. There were 53 *Hansards* of hearings with many witnesses called. Yet the Bank Act is of purely Canadian concern, can be changed any time, must be reviewed every ten years and is relatively very simple in content and wording while this measure is an international measure. It cannot be amended. It is permanent. It is exceedingly difficult to understand.

It is an exceedingly difficult question. Its implications no one can tell. Furthermore, in the committee of 1944 many witnesses were freely called on either side, while on this investigation only one witness has been called, the government chose one witness. The opposition asked for one. I talked about what happened in that regard this morning. Now, why is it that while all the press were in favour of Bretton Woods since the very first announcement of it, they have not given any reasons for their support, just saying it is good for the country.

And how is it there has been almost no discussion of Bretton Woods in the press that I have read? Does that indicate a desire to let the people get the truth?

And now, the banking and commerce committee in 1939, on the Bank of Canada hearing, started on March 8 and went until June 1. There were twenty-five *Hansards*. In 1934 we were dealing with banks and banking, and the incorporation of the Bank of Canada. We started on March 6 and went to June 14. There were 960 pages of small print. Just imagine the meagre little report there will be on this committee investigating this matter.

Mr. BREITHAAPT: You would not prolong this as long as you prolonged the committee last year?

Mr. BLACKMORE: No one suggested that, but surely this measure is worthy of that much investigation.

Mr. BREITHAAPT: Not that many pages, I do not think.

Mr. BLACKMORE: It is worthy of that much investigation. There is no doubt about that. This was brought into the banking and commerce committee on December 11. We sat from 4 o'clock until 6 o'clock; from 8 o'clock until 10.30 o'clock that day. On December 12 we sat from 11.30 o'clock until 1, from 4 until 6 and from 8 o'clock until 10.30. And we came here this morning to pass this bill. Well, Mr. Chairman, that will require a lot of explanation.

The CHAIRMAN: Mr. Blackmore, I cannot hold the attention of the committee for you and I cannot keep order in the committee if you are going to repeat your arguments.

Mr. BLACKMORE: I will not do much repeating, Mr. Chairman; I just wanted to put this in where it belongs. I am going very rapidly, if you will just let me

go on. The committee, I take it, desires to hear the absolute truth as to the flagrant fallacies underlying the position taken by Mr. Morgenthau and by the Canadian White paper, which I read, and by Mr. Ilsley. The whole attitude on Bretton Woods is based on flagrant fallacy, as I pointed out. The main fallacy is the assumption that the Bretton Woods agreement for exchange control being a protection against trade restrictions as an item of economic warfare must therefore be a protective against economic warfare itself. The actual facts, however, are that the trade restrictions were only a means of protection against economic warfare.

There was some evidence of that same kind of thinking in President Roosevelt's February 13th statement. Now, if it was intended that the people get the truth, why were the people offered fallacies like that? There is clear evidence that there is and has been no desire to give the people the truth.

But now, the next question is, why couch the agreement in language almost impossible for anyone to understand? May I quote what Paul Einzig says about this commitment, this Bretton Woods—if we have so completely satisfied ourselves. Here is what he says:

"It must be clear to those who understand the meaning of the report of the Bretton Woods International Monetary Conference, that the experts of forty-four nations have agreed on a return to the gold standard after the war.

Unfortunately, very few laymen can possibly understand the report. If the public were to realize what it is being led into it would raise its voice in a powerful protest, instead of allowing the experts a free hand to do their worst, as they did in 1925.

Some weeks ago Lord Bradbury, in a letter to *The Times*, complained that the previous joint statement of the Allied experts on the post-war monetary system, which was published in April, so far from being plain English, was hardly even English at all.

Yet that document was clarity itself compared with the tangle of tricky technical clauses contained in the final draft of the experts' plan of the new gold standard.

These clauses conceal from the British public the fact that, for the second time within the life of the present generation, sterling is going to be linked with gold, this time much more rigidly even than nineteen years ago.

And the text of the measure with the aid of which sterling is proposed to be wedded to gold has been made so obscure and complicated that even the expert, with the specialized study of a lifetime behind him, has to read it many times before fully grasping its true meaning." Why should they resort to such a technique if there was a desire that the people should know what was in it. The fact that it was so worded must certainly be cause for reserve on the part of those who had to deal with it.

I fear, Mr. Chairman, my time is exhausted, if you hold me rigidly to my forty minutes.

The CHAIRMAN: Mr. Blackmore, I do not feel like holding you rigidly to a time limit which you were good enough to impose on yourself. But, of course, I am in the hands of the committee. I feel that if a few minutes more would permit you to complete fully your thoughts on the subject you should have those minutes, because it will undoubtedly save the time of the House if you feel that you have a full and complete hearing now. I am hoping that you will not think it necessary to repeat the same argument when the bill comes up for third reading; and, if that is so, and another ten minutes, say, would permit you to complete without cramping your arguments, as far as I am concerned personally I would like you to go on.

Mr. BREITHAUP: Might we ask this, do you think Mr. Blackmore could finish before 6 o'clock. He has undoubtedly given this subject a lot of thought.

The CHAIRMAN: Are you content, gentlemen?

Some Hon. MEMBERS: Yes.

The CHAIRMAN: All right, Mr. Blackmore, go ahead.

Mr. BLACKMORE: I would not like to make any commitment that I would not speak at any later stage on this bill, because I do not think such an undertaking would be becoming a member.

The CHAIRMAN: I am not asking you for an undertaking, I am just expressing a hope. Most people respond to good treatment, and if you have ample opportunity here, your remarks are taken down and will be in the record; and so far as publicity is concerned, you will get just as great publicity for your organization here as on the floor of the House, and I am hoping you will feel that you have had the fullest possible opportunity here.

Mr. COLDWELL: Mr. Chairman, nobody wants to restrict the rights of any member on a reasonable time for discussion, but there are limits to endurance on the part of members of the committee, particularly when you get repetitive arguments. If we are to get new arguments it is all right, but otherwise I think we should confine ourselves to the time usually allotted for speakers.

Mr. BLACKMORE: I understand that I may proceed?

The CHAIRMAN: Yes.

Mr. BLACKMORE: I wish to draw the attention of the members of the committee to the fearful possibilities of the civil service which will develop around the Bretton Woods fund and board. I did go into that last night, and some of the members who were here will remember that I started to ask Mr. Mackintosh or Mr. Rasminsky, one or the other, what the position would be. Those of us who have had long experience with governments and government organization know that very soon the civil service element of it develops; there is a deputy minister and staff of the deputy minister, which is the staff of the department; and after a while it becomes a very difficult thing for the minister to govern the department at all, the department generally governs the minister. Now, if in connection with this Bretton Woods set-up you get a body of civil servants, especially men who are put in there by higher influence, and they get office and you have no way of getting them out, you can imagine about the condition which would obtain forty years from now with respect to international control. I wish to draw attention to that aspect of the Bretton Woods question.

Now, I would like to hear somebody in this committee tell us what possible good Bretton Woods can do for Canada. The question was raised whether it can do any harm.

Mr. STEWART: Did not Mr. Quelch agree that it would be of some good to Canada?

Mr. QUELCH: I did not say it would be some good; I said I did not think it would do Canada any harm; because Canada produces gold I did not think it was necessary for us to worry.

Mr. BLACKMORE: As a matter of fact, I do not see any evidence produced before this committee to show any good that would derive to Canada from the Bretton Woods agreement. Now, what harm could it do to Canada? Well now, Mr. Quelch had something to say along that line but I am going to put it very strongly; my fear is that if the nations are bound up under Bretton Woods they will be so unable to deal with their own problems internally that there will be the gravest danger of revolution. If revolutions once start they will be pretty hard to stop. And I think that anybody who is familiar with the realities of the very best nations to-day will agree that revolutions could very easily take place.

Now, the war feature of Bretton Woods: It is claimed that people think it is the solution of the world's troubles; they do not try to find out just what these adverse trade balances carry with them in the way of danger, and have little regard to the terrible problems confronting them; nor, do they consider what combinations these nations will take in order to protect themselves. That is a thing which no one can foretell.

Now, there is the economic conquest of the smaller nations and forcing them into Bretton Woods; and, forcing them to come under Bretton Woods I think means that the United States can practically conquer all the world, economically. She will trade, she will sell her goods to these nations as she has done in the past, as she has done in Britain, and Britain will not be able to pay in goods for the goods she buys and is forced to buy. What happens? Well then, the United States will take British pounds and buy British fixed assets, thereby making Britain's balance of payments condition worse than it was before; and ultimately she will gain complete control over the fixed assets of Britain. And the same thing will happen with regard to the other nations with which the United States trades; and this will be the natural result of the tremendous productive capacity of the United States. This is not a fantasy. This thing has actually happened. I have in my office at the present time a book called *America Conquers Britain*.

Mr. BREITHAAPT: What do you mean by "fixed assets of Britain"?

Mr. BLACKMORE: Mines, railroads, chemical industries—all of the country's resources.

Mr. BREITHAAPT: You refer to what are usually regarded as capital accounts?

Mr. BLACKMORE: Yes. That is the net result of the effect of the security she takes with respect to adverse trade balances, she increases her investments in a country and that means that she buys her mines, her railroads and everything else. That is the result of an adverse trade balance. It happens to the nation that is the weaker nation; and, under Bretton Woods there is not the slightest thing to prevent that. As a matter of fact, the nations are deprived of any defence against that sort of thing so that the United States is left a free hand.

And now, it is argued that other measures will be introduced. Let's talk about them. May I read for the members of the committee a list of the measures which President Roosevelt thought should be introduced. It is in his message of February 13, from which I read a few moments ago. From this list you will be able to see whether there is any measure proposed or contemplated which would offset this adverse trade balance danger.

1. The establishment of a food and agricultural organization of the United Nations. That is about as far as that problem is concerned, is it not?

2. Broadening and strengthening of the Reciprocal Trade Agreements Act under which the president is authorized to negotiate tariff reductions with other countries.

3. An international agreement for the reduction of trade barriers. This is yet to be worked out but may be sought at a United Nations conference following that on international security.

Mr. Chairman, I have found a number of members of the committee who seem to think that if you can have a sufficient reduction of trade barriers all will be well. How many members of the House are completely satisfied that complete free trade would solve the problems of the world? All that this gives us is a step toward complete free trade. Surely even extremists want to be moderate regarding free trade, because they do not see in it the solution. There is something more fundamental.

4. Control of cartels. With this Mr. Roosevelt included "the orderly marketing of world surpluses of certain commodities."

5. Revision of the export-import bank. This is the agency that would handle loans of strictly American money as distinguished from the world bank. The president may ask that its capitalization be boosted several times to \$2 billion or more.

6. An international oil agreement.

7. Proposals in the fields of civil aviation, shipping and radio and wire communications. The aviation proposals have been worked out but the others remain to be negotiated.

That is the full list. Now, is there anything in that which offers any promise whatsoever of enabling weaker nations to balance their trade? I see none.

What is the alternative? There is an alternative to Bretton Woods. There is a method by which co-operation can be had based upon understanding of 1. the true causes of want, fear, limitation of speech, religion and war.

Now, what are the chief difficulties with the United States and all of the British countries? They just do not understand what are the causes. If these causes were known I do not think many of them would consciously offend. 2. The true limitations of trade as a means of distribution, internally or externally; an effective method of distribution such as mutual aid without increased debt or taxation, (the secret here would be debt-free money). 3. The appreciation of the need for bearing one another's burdens and the realization of the truth of the motto "Live and let live." 4. Building up a sense of national honour that would make a nation ashamed of ignoring another nation's need, just as there was a condition of national honour under the gold standard. It was a shame for a nation to depart from the gold standard. So a sense of national honour could be developed on all of these other points. There is no need of depriving any nation of its national sovereignty. The honourable member from Rosetown-Biggarr yesterday expressed the idea that in order to get the United States to engage, we will say, in gifts on a large scale such as lend-lease, which we will call mutual aid—in order to get her to the point where she would accept goods in return for her goods it would be necessary to take away her sovereignty. I do not believe that. I believe that the answer is to let the United States people come to realize what causes war, why it is that their sons have to go and fight wars every fifteen or twenty-five years, then they will see to it that a remedy is found if they have to give the goods away by the billion and billion every year to enable weaker nations to survive. They will do that rather than suffer wars. That is my idea.

Now, Mr. Chairman, I wish to express my appreciation to the committee for its long sufferings. I realize that in the committee there were very few who felt any desire to hear what I had to say and very few who found it of any value; but if people in future times ever become interested in finding out what we thought about these things, in those terrible times, I believe they will find my remarks not without considerable interest.

Mr. FRASER: I think Mr. Blackmore is wrong. I believe we all listened to him.

Mr. BLACKMORE: I appreciate that very much.

Mr. FRASER: I think there was a lot in Mr. Blackmore's remarks that is of interest to us.

The committee adjourned to meet again this day at 8 o'clock p.m.

EVENING SESSION

The committee resumed at 8 p.m.

The CHAIRMAN: Gentlemen, I have now received replies from Mr. Rasminsky answering the outstanding questions, and I should like to read the answers into the record.

December 13, 1945.

Reply received from Mr. Rasminsky to questions raised by Mr. Blackmore on December 12

The various matters referred to by Mr. Blackmore were no doubt elements or signposts in the complex structure of causes which produced the great depression. However, the only factor mentioned by him as a cause of the depression which is directly relevant to the Bretton Woods institutions is the sudden cessation of foreign lending by the United States in 1928.

I believe that the Bretton Woods institutions could be used in such a way as to help stabilize the volume of foreign lending from year to year. In article I of the Articles of Agreement of the International Bank for Reconstruction and Development, one of the purposes of the bank is stated as being:

(v) to conduct its operations with due regard to the effect of international investment on business conditions in the territories of members.

Another provision of the Articles of Agreement of the bank which is relevant in this connection is Article IV, section 4 (f), which authorizes the bank to postpone transfer of the service of a loan for a period of three years and to modify the terms of amortization or extend the life of the loan in the case of a member suffering from an acute exchange stringency.

In addition to these provisions of the bank, the general facilities offered by the fund under which members may acquire foreign exchange within certain limits for their own currency might, of course, be used to soften the impact effect of a change in the volume of foreign lending on the economies of both the borrowing and the lending country if the borrowing country chose to use the facilities of the Fund. It is, however, not intended that the Fund be used to cover long-term capital requirements.

Regarding the economic warfare question, the Articles of Agreement of the International Monetary Fund attempt to deal only with those forms of economic warfare which are relevant to a currency agreement. Other proposals dealing with trade practices which might be characterized as economic warfare have been put forward by the United States Government and it is understood that they will be the subject of international consultation.

More generally, I have stressed in my verbal testimony that in my opinion international economic arrangements, though a necessary condition of world prosperity, are not a sufficient condition. Without intelligent domestic policies, the best international arrangements are not likely to produce the results sought. Many things need to be done to achieve world prosperity. But if we refuse to do any one of them because, taken by itself, it cannot be guaranteed to produce the over-all results sought, it will be impossible ever to come to grips with our problems.

MR. BLACKMORE: What do I have to do in order to get a chance to answer, Mr. Chairman?

MR. COLDWELL: Do it in writing, I think.

MR. BLACKMORE: I should be glad to do it in writing.

MR. QUELCH: Write a letter to the press.

MR. BLACKMORE: I should be glad to answer in writing.

REPLY RECEIVED FROM MR. RASMINSKY TO QUESTION RAISED BY
MR. FRASER ON DECEMBER 12

At the afternoon session of the Banking and Commerce Committee on December 12, Mr. Fraser asked certain questions regarding the effect of the repurchase provisions of the Articles of Agreement of the International Monetary Fund (Article V, Section 7). I outlined the purposes of these provisions and indicated that their tendency would be to raise the Fund's holdings of gold to 25 per cent of the quotas of the member countries. Mr. Fraser, at the evening session on December 12, questioned this reply and the Chairman asked me to submit an answer for the record.

My reply was accurate but it did not go far enough. It is clear that, in the case of countries which originally contributed less than 25 per cent of their quota in gold (and more than 75 per cent of their quota in national currency), the obligation to repurchase their currency from the Fund for gold does have the effect I indicated. It therefore tends to transform the original contributions of all members into the "normal" form, i.e. 75 per cent national currency and 25 per cent gold. The repurchase provisions also operate to keep the Fund's holdings of the national currency of countries which originally contributed the full 25 per cent of their quotas in gold and whose monetary reserves are above their quota, around the level of 75 per cent of the country's quota. But since this is accomplished by the country in question putting more gold (over and above the original 25 per cent of its quota) into the Fund to retire previous "borrowings", the Fund could conceivably at any given moment of time hold more than 25 per cent of its assets in gold. If it does, however, it will be holding proportionately less of the currencies of creditor countries which were sold by the Fund to the countries to which it is assumed the repurchase provisions apply.

For this reason the Fund could not, as was suggested in one question, ever come to consist entirely of gold. The adjustments provided for in Article V, Section 7 are not to be carried to the point where the Fund's holdings of a member's currency are below 75 per cent of its quota. The Fund will presumably have to sell part of its gold holdings from time to time to acquire member currencies in demand by members of the Fund.

The repurchase provisions are only one of the factors determining the amount of gold held by the Fund. Other factors bringing gold in will be (a) the "equal advantage" clause (Article V, Section 6 (a)) under which a member wishing to acquire the currency of another member for gold shall do so through the Fund if it can do this with equal advantage; and (b) the provision (Article V, Section 8 (f)) under which charges due from members to the Fund are to be paid in gold. On the other hand, the main factor tending to reduce the Fund's holdings of gold will be its decisions to replenish its supply of "scarce" currencies (under the provisions of Article VII, Section 2 (ii)). It is quite impossible to predict at what level the Fund's gold holdings will be established as a result of these various factors at any time.

The CHAIRMAN: Gentlemen, Mr. Blackmore had concluded his statement. Are we ready for the question or are there any other comments?

Some Hon. MEMBERS: Question.

Mr. BLACKMORE: May I just say this, Mr. Chairman, in connection with my statement, repeated three or four times, that Britain is being clubbed into accepting Bretton Woods. The committee will be interested in the news coming over, as published in the press tonight, to the effect that the British government

is going to vote in favour of the thing grudgingly and realizing that they are receiving a very bad deal, and doing it only because they do not dare risk hunger.

Mr. COLDWELL: That is on the loan.

Mr. BLACKMORE: Surely, but the loan and Bretton Woods are involved. Both are involved.

Mr. COLDWELL: Well, we will not argue it.

Mr. Low: There is just a comment which I should like to add, Mr. Chairman, to bolster that very argument that my honourable friend Mr. Blackmore has used. I have here the *United States News* published in Washington, D.C., of November 16, 1945. I should like it noted that the date is November 16. On page 71 of this magazine, in the section headed "Financial Week", under the title of "Breakup of Bretton Woods? Nations' Hesitancy to Join", I read as follows:—

No other country, however, has given a sign that the Bretton Woods agreements will be considered before the dead line. A debate was scheduled in the British parliament on this matter for October but failed to come off.

Now, one is constrained to ask why. To go ahead:—

Russia has been silent. France, with a \$450,000,000 quota, is not likely to ratify until the value of the franc is lowered.

Then jumping a short space there is this:—

The indications are that Bretton Woods will topple unless emergency measures are taken.

What emergency measures and who would take those measures? Those are questions that we have to consider in this whole matter, especially since this is being published in a United States publication. To go ahead:—

It appears scarcely possible that enough countries will act in the next six weeks to save the program. Congress probably could extend the ratification date—

As we have argued, Mr. Chairman. Continuing:—

—but that would mean another Bretton Woods debate, and the attitude of Congressmen toward making United States dollar commitments has cooled since July.

Now to go ahead and come to the point, on the following page, page 72, and a bit of space in between:—

An impasse could develop from this attitude. The House Committee on Postwar Economic Policy, headed by Representative Colmer (Democrat), of Mississippi, recommends that acceptance of Bretton Woods be a condition to any large-scale loans, and Congress must approve any loans that are arranged.

That ought to be sufficient evidence, Mr. Chairman, that their policy was designed well ahead of time and that that policy was invoked as a result of the leadership and insistence of Representative Colmer who laid down the rules for borrowing, and that is exactly what we have contended they are following.

Mr. COLDWELL: Mr. Chairman, I am not going to say very much, except this. A Congressman or Senator can make a statement of that description, but that does not mean that it is so, any more than the fact of a member of parliament here laying down something means that something is so. I do not think that proves anything at all.

One question I was going to raise, Mr. Chairman, is this. I think we have been conducting ourselves just lately in a very unusual way.

Mr. QUELCH: We have been doing what?

Mr. COLDWELL: Conducting ourselves in a very unusual way, and giving the stenographic staff a great deal of work. If my knowledge of the procedure of committees is correct, when a committee is discussing the preparation of its

report—and I did not want to say this until our friends had said what they had to say—it is not usual to make a stenographic report. Am I not right in that?

The CHAIRMAN: That is quite right. On many other previous occasions Speakers of the House of Commons have issued express instructions to committees that stenographic reports should not be taken of speeches by members and of discussions by members but that the stenographic report should be confined to the evidence of witnesses.

Mr. QUELCH: Is that just for the Banking and Commerce committee?

The CHAIRMAN: Oh, no.

Mr. QUELCH: In the Veterans Affairs committee everything has been taken down.

Mr. COLDWELL: The general rule, though, is as the chairman has described it.

The CHAIRMAN: But I considered that point, and I thought that under the present circumstances we might perhaps well depart from that rule in the interests of the over-all economy.

Mr. COLDWELL: That is all right. I am not complaining.

The CHAIRMAN: We have two amendments in regard to other clauses of the bill that I should like to get cleaned up now if possible.

Mr. COLDWELL: All right.

The CHAIRMAN: Mr. Hazen raised a question in regard to the adequacy of the wording of section 5. He raised the question as to whether that clause was worded wide enough to authorize the supply of gold. I have referred that matter to the proper officials and I now have a proposed amendment to submit to the committee with respect to paragraph 5. In the absence of Mr. Hazen, who has already been consulted as to this amendment, I would suggest that Mr. Black would move it.

Mr. BLACK: I shall be glad to move it.

The CHAIRMAN: The amendment is that the word "pay" should be stricken out of the first line of clause 5 and the following words substituted therefor, "provide for the payment of". The line as amended will read as follows: "The Minister of Finance may provide for the payment of the subscriptions required from Canada". The result of the amendment is to make it clear beyond any doubt that the authorization to the Minister of Finance includes the provision for the delivery of gold as well as the delivery of Canadian currency. Shall that amendment carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall the clause as amended carry?

Some Hon. MEMBERS: Carried.

Clause 5, as amended, agreed to.

The CHAIRMAN: Then the other proposed amendment was an amendment by Mr. Fleming. Once again, in Mr. Fleming's absence, perhaps Mr. Black would be good enough to move it for him. Mr. Fleming's amendment has already been read to the committee but I will read it again.

Mr. BLACK: What you are reading now is the amendment, and the wording is as proposed by Mr. Fleming?

The CHAIRMAN: Yes, it is in the exact words. I have his original motion.

Mr. BLACK: Then I shall be glad to move it.

Mr. COLDWELL: It is a new subsection?

The CHAIRMAN: It will be a new section 7 to the bill, an entirely new section.

Mr. COLDWELL: All right.

The CHAIRMAN: It reads as follows:

The Minister of Finance shall prepare and lay before parliament a report of operations under this Act as soon as practicable after the close of each fiscal year, but in any event within thirty days after the end of each fiscal year, or, if parliament be not then sitting, then thirty days after the commencement of the next ensuing session thereof.

Shall the committee add a new paragraph 7 to the bill?

Some Hon. MEMBERS: Carried.

Mr. STEWART: Would the directors of Bretton Woods have time to issue their report before then, within thirty days?

The CHAIRMAN: The actual wording of the amendment, I take it, is confined to the operations of Canada under the agreement.

Mr. STEWART: Oh, I see.

Mr. COLDWELL: That is right.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall the new section be added to the bill?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Thank you, gentlemen.

New section 7 agreed to.

The CHAIRMAN: We are now winding up the debate on section 2 of the bill. Is there any other member who wishes to speak?

Some Hon. MEMBERS: Carried.

Mr. Low: No.

Section 2 agreed to.

The CHAIRMAN: Then that is carried. Shall the title carry?

Some Hon. MEMBERS: Carried.

Mr. Low: No.

The CHAIRMAN: Shall the preamble carry?

Some Hon. MEMBERS: Carried.

Mr. Low: No.

The CHAIRMAN: Shall I report the bill?

Mr. Low: No.

Mr. QUELCH: On division.

The CHAIRMAN: Carried on division. Then there are two schedules to the bill.

Mr. Low: I should like to be recorded as being against the whole thing.

Mr. QUELCH: Lock, stock and barrel.

The CHAIRMAN: Carried on division. Then shall the schedules carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Before this committee adjourns I do want to express my thanks not only to the Social Credit members but to the other members of the committee who have exercised such great restraint.

Mr. Low: May I say I want to thank you for the way you have conducted this committee. I want to thank the committee men present for their courtesies towards us. I know it has been hard to bear sometimes but we felt we simply had to put our case and we would not have been doing our duty if we had not. I appreciate it very much.

The CHAIRMAN: The committee stands adjourned at the call of the chair.

The committee adjourned at 8.15 o'clock p.m. to meet again at the call of the chair.



