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THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING COMMITTEE ON

Banking and Commerce

to which was referred the subject matter of Bill [illegible], intituled "An Act respecting the Control of the Acquisition and Disposition of Foreign Currency and the Control of Transactions Involving Foreign Currency or Non-Residents."

TUESDAY, AUGUST 20, 1946
WEDNESDAY, AUGUST 21, 1946

CHAIRMAN

The Honourable Élie Beauregard, K.C.

WITNESSES:

The Honourable D. C. Abbott, P.C., M.P., Acting Minister of Finance.
Mr. Graham F. Towers, C.M.G., Governor of the Bank of Canada.

[illegible]

1946

THE SENATE OF CANADA

PROCEEDINGS

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STANDING COMMITTEE ON

Banking and Commerce

To whom was referred the subject matter of Bill 195, intituled: "An Act respecting the Control of the Acquisition and Disposition of Foreign Currency and the Control of Transactions Involving Foreign Currency or Non-Residents."

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OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1946

ORDER OF REFERENCE

(EXTRACT from the Minutes of the Proceedings of the Senate, 15 August, 1946.)

Pursuant to the Order of the Day, the Senate resumed the adjourned debate on the motion for the second reading of the Bill (195), intituled: "An Act respecting the Control of the Acquisition and Disposition of Foreign Currency and the Control of Transactions involving Foreign Currency or Non-Residents."

After debate,

The Honourable Senator Howard, seconded by the Honourable Senator Vien moved, in amendment, that the said Bill be not now read the second time, but that the subject-matter thereof be referred to the Standing Committee on Banking and Commerce for consideration and report.

After debate, and—

The question being put on the motion in amendment.

It was resolved in the affirmative, and—

Ordered accordingly.

The question on the main motion for the second reading of the Bill was therefore postponed until the next sitting of the Senate.

L. C. MOYER,
Clerk of the Senate.

MEMBERS OF THE STANDING COMMITTEE ON BANKING AND COMMERCE

The Honourable Elie Beauregard, K.C., *Chairman*

The Honourable Senators

Aseltine,	Euler,	Marcotte,
Aylesworth, Sir Allen,	Fallis,	McGuire,
Ballantyne,	Farris,	Michener,
Beaubien (Montarville),	Foster	Molloy,
Beauregard,	Gershaw,	Moraud,
Buchanan,	Gouin,	Murdock,
Burchill,	Haig,	Nicol,
Campbell,	Hardy,	Paterson,
Copp,	Hayden,	Quinn,
Crerar,	Howard,	Raymond,
Daigle,	Hugessen,	Riley,
David,	Jones,	Robertson,
Dessureault,	Kinley,	Sinclair,
Donnelly,	Lambert,	White,
Duff,	Leger,	Wilson—(47).
DuTremblay,	Macdonald (Cardigan),	

71534—1½

REPORT OF THE COMMITTEE

(EXTRACT from the Minutes of the Proceedings of the Senate, 22 August, 1946.)

THURSDAY, 22nd August, 1946.

The Standing Committee on Banking and Commerce beg leave to report as follows:

By order of reference made on Thursday, the 15th August, 1946, the subject matter of Bill 195 : "An Act respecting the Control of the Acquisition and Disposition of Foreign Currency and the Control of Transactions involving Foreign Currency or Non-Residents," was referred to your Committee for consideration and report.

In view of the importance of this matter, all Honourable Members of the Senate, whether members of your Committee or not, were invited to attend our sittings and to participate in our proceedings, to examine or cross-examine the witnesses, the right to vote being reserved to members of your Committee. This invitation was generally accepted and acted upon.

Your Committee have held six sittings and have heard the following witnesses:—

The Hon. D. C. Abbott, P.C., M.P., Acting Minister of Finance;
Mr. Graham F. Towers, C.M.G., Governor of the Bank of Canada and Chairman of the Foreign Exchange Control Board.

The hearing of these witnesses and the discussion which ensued have disclosed the necessity of amending the said Bill 195 in several important respects, and they have also revealed the necessity of continuing a modified form of foreign exchange control for a limited period of time.

Your Committee are therefore of the opinion that, with the information now available, the Senate proceed to the Second Reading of the said Bill 195, with the understanding that the Bill itself will then be referred to the Standing Committee to be amended in such respects as your Committee may deem advisable.

All which is respectfully submitted.

ELIE BEAUREGARD,
Chairman.

Ordered, That the same do lie on the Table.

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, Tuesday, August 20, 1946.

The Standing Committee on Banking and Commerce, to whom was referred the subject-matter of Bill No. 195, an Act respecting the control of the acquisition and disposition of foreign currency and the control of transactions involving foreign currency or non-residents, met this day at 10.30 a.m.

Hon. Mr. BEAUREGARD in the Chair.

The CHAIRMAN: Gentlemen, we have with us this morning the Honourable Mr. D. C. Abbott, Acting Minister of Finance, and Mr. Graham F. Towers, C.M.G., Governor of the Bank of Canada. We will hear first from Mr. Towers.

Mr. TOWERS: Mr. Chairman, if I were asked to state in one sentence the objective of exchange control as it is operated in Canada, I would unhesitatingly answer that the objective is to avoid the imposition of restrictions on our foreign trade, and to enable us to participate with other countries through the medium of the International Monetary Fund and similar organizations in the efforts which are being made to promote growth and freedom of international trade on a multilateral basis. The reason why control of exports of capital serves these purposes requires some explanation and an examination of Canada's foreign exchange position, present and prospective. Obviously such an examination must include an appraisal of the position of the countries with which we conduct our business.

When the Minister of Finance made a statement in the House on the subject of foreign exchange control on June 17 last, he took occasion to emphasize the uncertainties of the international outlook and the difficulties with which Canada might be faced if the efforts to achieve international economic cooperation were not entirely successful. It is certainly necessary to bear in mind the fact that the war has caused terrific disruption and disorganization in many parts of the world, and has left many countries, amongst whom we may number some of our best customers, in a very bad international position from a financial and economic point of view. Perhaps there is a tendency at the present moment to forget these realities. Their effects on us are obscured by extension of international credit, especially by the United States, on a very large scale. The real tests are still to come. It is against the background of this difficult and dangerous international situation that our foreign exchange problems have to be considered.

I think that consideration can appropriately start with a reference to our foreign cash resources as at the end of last year. We possessed approximately \$1,500,000,000 (U.S.) of gold and U.S. dollar balances. This is an amount far larger than anything Canada has ever previously held. It is extremely fortunate for Canada that she emerged from the war period in such good shape from a foreign exchange point of view. Our good fortune in this respect was due in part to the operation of the Hyde Park Agreement, and to certain unusual occurrences such as the sale of approximately \$550 millions worth of wheat and coarse grains to the United States in the years 1943 to 1945. But even with these things on our side, we would have emerged from the war with no increase in our pre-war holdings of gold and U.S. dollars—approximately \$400 millions—if it had not been for capital transactions. The war-time increase in our foreign exchange resources was due to the factors referred to on page 21 of the Foreign Exchange Control Boards' Report to the Ministe r of Finance. We got U.S. dollar cash for $236 millions of our holdings of U.S. securities. Over and above that, American investors bought a net amount of $484 millions of Canadian securities. Subsidiaries of U.S. companies in Canada accumulated undistributed profits in the amount of $232 millions. These, and certain other capital transactions during the period from September 16, 1939, to December 31, 1945, were entirely responsible for the war-time increase in our holdings of gold and U.S. dollars. We did not *earn* this increased amount. We got it through realization of capital assets or by a form of borrowing.

However we may have received these funds, it cannot be denied that possession of them gives us liberty of action—makes it possible for us to embark on the reconversion period with less control over foreign exchange transactions than any other major country except the United States. On the other hand, I do not think that these admittedly large holdings of gold and U.S. dollars should lull us into the belief that our position is an impregnable one.

Our high level of employment and national income, and the backlog of deferred consumers' buying, inevitably result in a tremendous demand for imports, most of which have to be paid for in U.S. dollars. On the other hand, a very substantial volume of our exports is financed on credit, and from these exports we earn no U.S. dollars. Predictions are dangerous things, and I would not care to make a definite estimate of our current account deficit in U.S. dollars over the course of the next two years. But I can go so far as to express the opinion that it would not be surprising if the deficit for the two year period was half a billion dollars or more.

During this same two years, Canadian securities payable in U.S. dollars will mature or will become callable in amounts aggregating more than $500 millions. I do not suggest that all these securities would be brought home to Canada, but I do believe that substantial amounts will be repatriated. I am therefore inclined to think that, on balance, capital transactions will involve the use, rather than the receipt, of U.S. dollars during the next two years. It is quite impossible to make anything which purports to be an accurate estimate of the amount of U.S. dollars required for these capital transactions during the period I am discussing. One or two hundred million dollars would not, in my opinion, be a ridiculous figure to suggest.

It follows from what I have said that we may well see a reduction of more than $600 millions in our U.S. holdings over the course of the next two years. It might even be the case that our holdings of gold and U.S. dollars were cut in half. Let me emphasize that I do not wish to name these figures as a definite prediction, but simply to say that the outlook at the present time is for drafts on our resources of the order of magnitude which I have mentioned. These figures assume continuance of control over exports of capital. If we do not control exports of capital, a host of new uncertainties appears on the scene.

Canada is a debtor country. Canada's foreign debt is substantially larger than that of any other country in the world if one excepts the war debts incurred by the United Kingdom in the form of accumulated sterling balances. A very large portion of Canada's foreign debt is in the form of negotiable securities in the hands of non-residents. These holdings in the United States run to billions of dollars.

Let us suppose there is no control over the export of capital. During the next few years, our holdings of gold and U.S. dollars might well be going down on a very substantial scale, for the reasons which I have mentioned. In addition, with no control there would be a further drain arising from Canadian purchases of U.S. securities. I do not suggest any flight of capital from this country, but I believe that the amount involved in the purchase of New York stocks could be quite substantial.

Under these conditions—and assuming no control over capital exports—would foreign holders of our securities decide to sell them in Canada and take their money home? These foreign holders would be aware that our exchange reserves were going down very substantially. Would that cause them any concern? If it caused them the slightest concern, a number of them would in fact take their money out, because any suggestion of risk in respect of exchange depreciation or reimposition of foreign exchange control would more than counterbalance the extra interest which they could earn on first-class Canadian bonds as compared with U.S. investments. Is there any chance that the international financial and business situation may at times be of a character which does not make for optimism? Any worry of that kind can produce a movement of capital.

I think I should point out that there is a new element in the situation as compared with pre-war days. Since September, 1939, the government has followed the policy of stabilizing the exchange rate, and under the Bretton Woods Agreement the government committed itself to the maintenance of a stable exchange rate unless and until a change in rate became necessary as the result of a fundamental disequilibrium. A reduction in our foreign exchange resources as a result of export of capital would not necessarily or even probably be regarded as proof of a fundamental disequilibrium. Prior to September, 1939, there was no commitment to avoid day to day fluctuations in exchange. There were times when that commitment was implied because of the fact that we were legally on the gold standard, but, as we all know, the first cold breeze blew us off the gold standard. During all the years between the two wars, the exchange rate was settled by demand and supply without government intervention in the market. In times of stress, when worry about our situation caused some withdrawals of capital, the brake on those withdrawals was provided by the exchange rate. A foreign investor may be sufficiently frightened to take out his money at par, but not so panicky as to accept the loss involved in taking his money home at a 20 per cent discount. Imports also were to some extent rationed by the rate. I do not think it is Parliament's desire that we should go back to a system in which movements of hot money and exchange speculation could affect and interfere with everyone engaged in foreign transactions. But I fail to see how, in the existing state of world affairs, a commitment can be taken to maintain exchange rate stability with the sword of uncontrolled capital movements handing over our head.

The position of the United States is very different from that of Canada. They are on balance a creditor country, not a debtor country. The United States holdings of gold are tremendously large, something over $20 billions at the present time; and even in the unlikely event that non-rēsidents who own U.S. dollar balances or marketable securities should desire to withdraw their money from the United States, the United States is in possession of sufficient gold to repay these claims and still have a large supply of gold on hand.

From a foreign exchange point of view, I think Canada has been exceptionally lucky in respect of the position in which we find ourselves after the close of the war. If we had ended the war with the same amount of gold and U.S. dollars with which we commenced it, that alone might have been considered a fortunate outcome. We would have had $400 millions. In that case, I believe that it might well have become necessary to embark on quantitative regulation of imports next year. And there, let me say, is a form of control which is extraordinarily bad from a business point of view. Fortunately, we are not in that position. Our people can import all the supplies they want, and can get, from any country. We are in a position to stand some substantial exchange losses, and see how things go during the transition period. I think, however, that it would be reckless to overestimate the strength of our position; and to run serious risks of getting into a fix which might necessitate the adoption and enforcement of new, more extensive and more rigorous measures of control.

Hon. Mr. Abbott: Perhaps I should say a word on the second question on the list which Senator Robertson has submitted.

As honourable senators are aware a very substantial number of considerations were dealt with under the War Measures Act by order in council during the war. The Emergency Transitional Powers Act, as it now stands, contains the various orders in force until fifteen days after the commencement of the next session of parliament, with the probability that it will be extended to sixty days, in the hope that before the expiry of that delay period a good many of the orders now in force will have become unnecessary. As many of the orders as possible are being put in legislative form because it is inevitable that the powers given under them will be required beyond the period which expires sixty days after the commencement of the next session.

The government is convinced that some form of foreign exchange control will most certainly be necessary beyond the period which I mentioned. It is quite evident that parliament will have a very heavy task before it during the early days of the next session because of such measure as will then be found necessary to be continued. We have therefore been trying, as far as possible, to get into the form of legislation at this session the measures now carried out under order in council and which it is certain will be required for some time after the commencement of the new session at the beginning of next year.

This bill was first introduced, as the committee knows on June 17. The Minister of Finance indicated in a speech in Toronto as far back, I think as March 1 that the government had come to the conclusion that a continuation of Foreign Exchange Control would be necessary. The question was before the Banking and Commerce Committee of the House of Commons for some time; it is unfortunate that it was not sent over to the Senate earlier, but I can assure honourable members that the fault was neither mine nor the House of Commons. It simply was not possible to get the measure through the Banking and Commerce Committee and then to the house at an earlier date. The government feels that it would not be desirable to hold a measure of this kind over to be dealt with in the first sixty days of the next session. It is quite evident that some measure of this kind would have to be provided. That is the reason we felt it was desirable to introduce this measure and some others which during the war have been carried out under orders in council passed under the War Measures Act.

Hon. Mr. Crerar: Mr. Chairman, may I ask a question?

The Chairman: I think it would be much better if we disposed of the entire statement as contained in the paper which Mr. Abbott has before him.

Hon. Mr. Crerar: What is the statement?

The Chairman: A programme has been devised by the leaders of both houses so that the witnesses will make statements on the specific points and then questions may be asked by all senators. The first point has been dealt with by Mr. Towers. Mr. Abbott has been dealing with the second point. I think Mr. Towers should proceed.

Mr. Towers: Assuming there is a need for some kind of foreign exchange control, and that the bill be dealt with at this session of parliament, is there an alternative method of meeting our foreign exchange problems which would interfere less with the liberty of the individual, such as an exchange equalization fund? In the operation of the exchange equalization fund the government in the present circumstances, in view of our participation in Bretton Woods, would have taken the responsibility of preserving stability in exchange rates, and would have to operate the equalization account with that fact in mind. In other words, if the circumstances of our international situation were such that our current earnings of U.S. dollars from exports and other sources were not sufficient to supply the demand for U.S. dollars for imports and other needs, the government would have to stand ready to sell U.S. dollars out of resources which is now possesses. As I indicated in my remarks earlier, I believe that over the next couple of years the excess of the demands for U.S. dollars over the supply of them will in fact be very substantial.

Hon. Mr. HAYDEN: Do you mean the current supply?

Mr. TOWERS: I should say the demand for the current supply would be very substantial. In the operation of the equalization account the government of course would have to be prepared to use up the existing resources to cover that excess demand. If the demand is limited to current account needs and certain needs for repayment of maturity or other fixed obligations, we have sufficient to meet those needs. The equalization fund operation assumes no control over exports of capital or the means that the government would have to supply U.S. dollars and stabilize the rates to anyone wanting U.S. dollars for any purpose whatever. It would be required to supply U.S. dollars to non-residents who decided to sell securities in Canada; it could not question the purpose for which the U.S. dollars were required, or whether they were demanded by residents or non-residents.

Hon. Mr. ROEBUCK: Why?

Mr. TOWERS: Because that is inherent in the operation of an equalization fund, in the sense in which it is mentioned here—that there should be no foreign exchange control. That is my understanding of the question.

Hon. Mr. HAIG: That is correct.

Mr. TOWERS: For the reason which I mentioned earlier I would have my doubts as to whether our exchange resources would be equal to that uncontrolled demand. It must be considered that if the depletion of our foreign exchange resources reached the point where we would have to turn to the International Monetary Fund for assistance, those who operate it would say to us, "Why is it that your foreign exchange holdings are getting so dangerously low, and why do you come to us?" They would further say, "We do not wish to cover your current trade requirements; the fund is to cover the export of capital." In the fund agreement it was specifically provided that if a country had to resort to the fund because of the outward movement of capital on any scale the fund would have the right to suggest that that country should impose control of the outward movement of capital. The implication is that the fund should not be used for that purpose; its resources, particularly in hard currencies are not unlimited, and it desires to preserve its resources to promote the freedom of current international trade and not to provide money for people to withdraw their capital from various countries.

Hon. Mr. EULER: If the trend was towards the depletion of that billion and a half dollars in American funds would you not have time, by way of emergency legislation, to institute a control?

Mr. TOWFRS: I do not believe so. It is one thing to have foreign exchange control in a country which never had it before, which was our position in September, 1939. While it might have been expected that we would have to impose it, apparently it was not done; any flight of capital which took place was limited to only a comparatively few days before the foreign exchange control came in. But once a country has had foreign exchange control, then at any time that things are going badly it swings the foreign exchange control question in the people's minds. I believe that once the difficulty started, and before it could be stopped in the way which you suggest, we might get into a low position. I have emphasized the value of our present strong position in enabling us to take real chances, to suffer serious losses in foreign exchange without imposing quantitative control of imports. Moreover, I think it is the case that in the years between the two world wars we usually had gold and U.S. dollar resources which were inadequate for Canada. I think that the 400 million dollars with which we entered the war could have been criticized as a dangerously low position. We did get by, but it was due to circumstances which we had no right to anticipate before the war. Having in mind the higher price level today, as compared with pre-war values we must expect that even with the same volume of deficits in our trade with the U.S. dollars, that the size of the deficit will be larger; in other words, 400 million dollars before the war would be represented by 600 million now.

Hon. Mr. EULER: But we have a billion and a half.

Mr. TOWERS: We have a billion and a half but I would not be surprised if that amount were cut nearly in half within two years.

Hon. Mr. MCGEER: We would still have a huge surplus.

The CHAIRMAN: May I ask honourable senators to refrain from asking questions until Mr. Towers has made his statement.

Mr. TOWERS: To sum up on the exchange equalization account, the question there really is: Is control of export capital really necessary? The exchange equalization account assumes no special control; that is to say, it assumes stabilization of rates, but no control of capital movements.

Hon. Mr. LAMBERT: In that connection I think it is important to mention the point about being able to scrutinize details of transactions.

The CHAIRMAN: Senator Lambert, your question may be important, but there are a great many important questions to be discussed.

Hon. Mr. CRERAR: I suggest, Mr. Chairman, that Mr. Towers and Mr. Abbott be allowed to complete what they have to say before submitting to questions.

Mr. TOWERS: The minister has pointed out, and perhaps it should be said, that the exchange equalization account does not assume any scrutiny of transactions.

The CHAIRMAN: We will proceed now with No. 4.

Hon. Mr. ABBOTT: No. 4 of these headings, Mr. Chairman, is the desirability of putting a time limit on the life of the act. As honourable senators are aware, that question was considered and discussed in the Commons and its Banking and Commerce Committee. I indicated both in the House, I think, and in the committee that we would be prepared to consider a time limit, although the government felt that in accordance with the usual practice under the British parliamentary system no term should be fixed for the operation of the measure, that it should be left to parliament to repeal it when it became no longer necessary. The only suggestion made in the Commons' Banking and Commerce Committee as to a time limit was a limit of one year. The government felt that that was entirely inadequate, that if foreign exchange were required at all it was quite obvious that it would be required for longer than one year. I will ask Mr. Towers in a moment to give, if he will, the technical justification for that statement. Therefore I could not accept the suggestion that the duration of the bill be limited to a year. I would have been prepared to consider a clause fixing the duration for a longer term, although I must say frankly to the committee that on the information I have I think it is undesirable. If a term were put in I think it should be on such a basis that there would be no risk of the act lapsing while parliament was not in session. If consideration were given to inserting a term in the bill, I think it should be to expire on a certain date, let us say, provided parliament were in session, or, if it were not, then sixty days or some other term after the commencement of the next session.

Hon. Mr. HAIG: As in the Emergency Transitional Powers Act.

Hon. Mr. ABBOTT: Yes. That act of course continues orders in council in force until sixty days after the commencement of the next session. I hope honourable senators appreciate the difference between the powers in that act and what is asked for in this bill. That act confers upon the government wide powers to legislate by orders in council on a variety of subjects. Anything enacted by virtue of that act will lapse sixty days after the beginning of the next session. This bill contemplates a certain principle, namely, the principle of exchange control, and it provides the machinery for carrying the principle into effect. It has a certain purpose, and in that respect it differs materially from the National Emergency Transitional Powers Act. For reasons which I think will be clear to the committee the government cannot accept a limit of one year to the life of the bill, and although we think it is not desirable to have any period of limitation inserted we are prepared to consider a longer one. I think if it is decided to limit the life of the measure it should be on conditions such as I have indicated, namely, so that there will be no chance of the bill lapsing when parliament is not in session. We have an example of an act lapsing at a very inconvenient time in the United States, the O.P.A. That is a practice which is followed in countries like the United States, where the executive is not responsible to the legislative body, but it is not a practice which I think is generally to be commended in countries which follow the British parliamentary system.

That is perhaps all I should say at the moment on the question of a time limit in the bill. I would like Mr. Towers to add a word, if he will, on the technical question.

Mr. TOWERS: Mr. Chairman, it is of course impossible for anyone to predict when Canada could remove control on exports of capital without running unjustifiable risks, because to make such a prediction one would need knowledge of our own situation and of the political and economic situation of the world generally at some date years removed from now, and in fact no one has that knowledge. There are two possible courses of action. One is the normal course of not placing an expiry date in the act and relying on repeal of the measure when it is no longer necessary. The other is the one which has just been mentioned; that is, to name an expiry date, which has not necessarily any relation to the time when repeal will be practical, but which will constitute, shall I say, a form of diary note to ensure that the government and parliament will not forget to give the matter consideration.

I think it must be said that the second course involves certain risks. If it turns out that as we near the expiry date our foreign exchange position and the international situation leave much to be desired, worry may develop as to whether or not foreign exchange control powers will be renewed. It might be assumed that in such unfavourable circumstances as I have suggested the powers would in fact be renewed, but business men and the public generally often hesitate to base their actions on assumptions of that kind. There might be a fear that if control was not renewed, exchange rates would be materially affected, and in a free enterprise system uncertainties of that kind necessarily cause hesitation and lack of confidence, neither of which promotes employment and new development.

Mr. Chairman, it is hardly necessary for me to say that a decision as to whether or not an expiry date should be placed in the act is a matter of high policy which only parliament can decide. All that it is proper for me to suggest is that if an expiry date is set, it should be set with due regard for some of the risks which I think it is fair to say are involved.

The CHAIRMAN: Gentlemen, if it is agreeable we can now proceed with questions.

Hon. Mr. HAIG: Mr. Minister, what would you think of a suggestion to limit the life of the bill to two years from next January, if parliament were then in session, and, if not, to the end of the then approaching session, which would be the end of the session of 1949? That date is farther ahead than any that has been mentioned by most people with whom I have discussed this matter. Some have suggested one year and some, two. I do not think much of the proposal that the expiry date be sixty days after the opening of a session, and that is why I ask what your opinion is as to fixing the date as at the end of the session of 1949.

Hon. Mr. Abbott: That is a good suggestion; that allows the whole session for consideration of the matter.

Hon. Mr. Haig: That would give you to the end of the session of 1949. I want to be quite candid—I am speaking only for myself, but I think this is the view of our party—we want to give the government every assistance we can. At the same time, we do not want this measure to be permanent. If within two or two and a half years from now we see that it is absolutely necessary to continue the control, we will be the first to stand behind you. We would like the onus to be on the government and the Foreign Exchange Control Board to satisfy parliament that the power should be renewed.

Hon. Mr. Abbott: Is your suggestion, Senator Haig, that a duration should be stated along this line—that the act, unless renewed, should lapse on the last day of the session first called in the year commencing January 1, 1949?

Hon. Mr. Haig: Correct.

Hon. Mr. Abbott: Well, subject to consultation with my colleagues, I do not think I would take objection to such a provision. I think it might be put in general terms.

Hon. Mr. Haig: We will not dispute about the terms. You can consult your counsel and we will consult ours.

Hon. Mr. Abbott: Your suggestion would be the last day of the session which first commences in the year 1949?

Hon. Mr. Hayden: How about 1948?

Hon. Mr. Crerar: I am not prepared at the moment to accept Senator Haig's suggestion.

Hon. Mr. Haig: I am not speaking for anybody but myself.

Hon. Mr. Crerar: I think it is a matter of regret—I am not criticizing the government in this respect—that this measure, one of the most important that parliament has dealt with, comes to us when we are supposed to be within a week of the termination of the Senate. I do not like that; it seems to me that that is not the right way to handle a bill so important as this one. I do not think it will be denied by Mr. Towers or by Mr. Abbott that this bill seeks to confer very extraordinary powers on the Foreign Exchange Control Board.

Hon. Mr. Hayden: Would not the word "continuing" be better?

Hon. Mr. Crerar: The bill proposes very extraordinary powers; it provides no limitation either in time or scope of operation. Such a measure should not be passed by parliament without most careful scrutiny; and we in the Senate have not had an opportunity to so consider it. I was impressed with what Mr. Towers said about the need of controlling the large movement of capital. By his remarks I presume that he does not mean that Canadians will lose confidence in their country or their government, and want to get their own wealth out of the country in some form or other, but that it has to do with investments in Canada particularly by people from the United States who may have bought dominion government securities or provincial or municipal securities.

For the sake of argument, assuming that it is necessary to have some sort of control over large movements of capital, I still fail to see why it is necessary to incorporate in this bill absolute controls over individuals in this country. For instance, if a farmer in Saskatchewan is using a tractor manufactured in

Minneapolis and in the midst of his harvesting operations it breaks down, under this measure the first thing he has to do is to get a permit to import the repairs.

Mr. TOWERS: Any imports of any kind can be purchased by any one in Canada in any amount and the foreign exchange board cannot say nay. The purchaser is asked when the import comes in to put certain foreign exchange control information on the declaration so that when he wishes to make payment for the parts he will have evidence to show the bank that he in fact has an obligation to pay for an import. The word "permit" is of course a most unfortunate one. Other names could have been used which would have been so much better, because the permit in fact is merely a voucher to enable the purchaser to demand and receive U.S. dollars from the bank.

Hon. Mr. CRERAR: Take for instance, Mr. Towers, if a resident of Canada wants to send $150 to his mother in Minneapolis. Do I understand he would have to secure a permit to send that amount for benevolent purposes?

Mr. TOWERS: He would have to go under any circumstances to the bank to get the U.S. dollars.

Hon. Mr. CRERAR: But supposing he was a hundred miles from the bank?

Mr. TOWERS: What would he do without foreign exchange control?

Hon. Mr. CRERAR: He would go to the post office and buy a money order.

Mr. TOWERS: He can do that under existing conditions. The only difference under the exchange control measure is that he would be asked the purpose of the remittance. If he said it was for the purpose you mentioned he would get the money.

Hon. Mr. CRERAR: The point I am raising is that he would be required to get a permit; he has to get authority from someone to send the money out of the country.

Mr. TOWERS: The authority asks the object of the remittance.

Hon. Mr. CRERAR: He would be required to get some sort of document from the postmaster, or someone else, to show that he has conformed with the law in sending the money out of the country.

Mr. TOWERS: When he pays the exchange he says, and necessarily signs, indicating that the purpose is so and so. That is all.

Hon. Mr. CRERAR: It would be quite within the powers of the Foreign Exchange Control Board to refuse that transaction under certain difficulties.

Mr. TOWERS: That question touches on a number of points. You have given one illustration which is theoretically correct; in other words, there are many ways in which the Foreign Exchange Control Board could make fools of themselves and be a nuisance to the public. But if they did that I predict that they would not be the Foreign Exchange Control Board longer than twenty-four hours. That of course is the safeguard.

Hon. Mr. CRERAR: I would not quite agree with your statement, Mr. Towers; that is not the way these things operate. If the board did do what you suggested they might there would be a tremendous volume of annoyance throughout the country; but we have had a state of annoyance throughout the war, and because of the overriding purpose of the war the annoyance has passed over; but you cannot do those things in peacetime.

Hon. Mr. EULER: Would the postmaster be the judge of the propriety of sending that money across the border?

Mr. TOWERS: Certain principles are laid down. For instance during the period of war, when our resources were particularly low, limitations were placed upon what we might call benevolent remittances; but those remittances were never so low as to involve starvation on the part of the recipient. They were required to keep their remittances down to the moderate proposals which any individual might need; they were not on a scale which would provide for very luxurious living.

Hon. Mr. EULER: That does not answer my question.

Mr. TOWERS: The principles are laid down.

Hon. Mr. EULER: The postmaster would have the right to refuse the money on his own initiative and at his own discretion?

Mr. TOWERS: If it was stated to be a benevolent remittance of that kind he would not. I am unable to cite the figures, but if someone came in and asked for $50,000 he would refuse it subject to examination by the board.

Hon. Mr. EULER: That is the limit which he would refuse.

Mr. TOWERS: I am citing a very high level, because I cannot remember the exact figure.

Hon. Mr. EULER: But not many would come in asking for $50,000?

Mr. TOWERS: No.

Hon. Mr. EULER: Supposing I came along and asked for $500 for a certain purpose, would the postmaster refuse me?

Hon. Mr. HAYDEN: He might and he might not.

Mr. TOWERS: In the post office the limit is $100; above that it is referred to the board.

Hon. Mr. EULER: Which would mean delay.

Mr. TOWERS: Or it would be referred to the bank.

Hon. Mr. EULER: What is the limit on banks.

Mr. TOWERS: For benevolent remittances, $100.

Hon. Mr. HAYDEN: As I understand it there is no question of delay because there is direct telephone communications between the banks and the board. An answer could be secured the same day.

Mr. TOWERS: That is correct.

An Hon. SENATOR: But the bank could refuse it?

Mr. TOWERS: The bank would refer it to the board if it was over $100.

Hon. Mr. CAMPBELL: And the board could refuse it.

Mr. TOWERS: The board could refuse it if the amount involved seemed out of proportion.

Hon. Mr. CRERAR: Mr. Towers, while the amount is $100 now, the board could issue new instructions to the banks that the limit be $50. It has power to do so?

Mr. TOWERS: That is true.

Hon. Mr. CRERAR: And it has the power to prohibit payment altogether, if it desires to do so.

Mr. TOWERS: That is true of course but the board has never taken any action of that kind without governmental approval.

Hon. Mr. CRERAR: That may be true, but my criticism of this bill is because of the power it places in the hands of the board. It is given extraordinary authority over transactions of the ordinary individual, in order to prevent someone taking five, ten or fifteen million dollars out of the country. Surely there is some way of bridging that gap.

Mr. TOWERS: I wish I knew what it was, Senator Crerar. I am sure I feel as strongly as you, because the administration involves responsibility and work. If it were possible to cull out all the multitude of smaller transactions and still achieve our objective it would be acceptable but I do not think it can be done.

Hon. Mr. HAYDEN: How can you control without some person having the right to say no?

Mr. TOWERS: That is a question we cannot answer; we do not know.

Hon. Mr. CAMPBELL: How serious is the problem of individuals requiring foreign exchange for the purpose of travelling, sending benevolent remittances or maintaining themselves in the United States in the case of illness? How serious is that problem in connection with your whole plan?

Mr. TOWERS: While the amounts involved are substantial I believe we can afford them; in fact we are affording them at the present time. It may be that the limit which has been mentioned so far as benevolent remittances are concerned can be raised, because certainly the objective is to develop a situation where a number of references to the board will be cut down to the absolute minimum; and of course they have been tremendously cut down during the last year. The number of people who find that their applications are not immediately dealt with by the bank or post office is very small; we may be able to make them even smaller.

Hon. Mr. EULER: When an individual does go to the board over the refusal of the postmaster, does someone on the board give the decision or does it go before the whole board?

Mr. TOWERS: The board tries to lay down certain principles so that it can manageably deal with the particular cases.

Hon. Mr. EULER: The board does not pass every case.

Mr. TOWERS: It cannot pass on the individual cases, but tries to lay down certain principles.

Hon. Mr. EULER: And some official makes the decision.

Mr. TOWERS: In the light of the principle; but if that decision causes objection the case would certainly be referred to the board. I can think of only one refusal in connection with travel. The government states its policy regarding travel and indicates the funds which will be provided for all reasonable travel needs; the board then has to appraise that very liberally to make sure that they are not being too officious. We have refused only one application which asked for $100,000 to spend the winter in the United States. We thought that was high.

Hon. Mr. LAMBERT: Mr. Chairman, before we proceed further may I say that there are two aspects to our problem; one relates to the field in which Mr. Towers is an expert, the other having regard to questions of policy which involve the minister. In order to serve the witness' convenience as well as the interest of the senators, I think there should be some regard for the two phases of the organization, and that each senator be allowed to ask his questions before going on to another.

Hon. Mr. CRERAR: There are a few more questions I would like to ask Mr. Towers, what would be the effect of this control on the investment of American capital in business enterprises in Canada? I will cite an instance. About fifteen years ago an American concern invested about $35,000,000 in the development of the Hudson Bay Mining and Smelting Company's property at Flin Flon. As a result a great deal of employment was given to Canadian labour—an industry has been developed which is now employing more than 2,000 people steadily—and of course it has meant the purchase of a vast amount of Canadian materials. Obviously the capital requires a return, and the company has been paying a dividend of $2 a share, practically all of which goes to the United States, so I am told. Under this measure the board could refuse to let the return on the capital go out of the country. I know of two other large possible developments in Canada; one of them would probably require as much capital as was put into the Hudson Bay Mining and Smelting Company, and the investment in the other would run into several millions. If this measure goes through might it not have an adverse effect on the willingness of Americans to put their capital into permanent enterprises in Canada, because of the uncertainty of getting out a return on their money?

Mr. Towers: No, I do not think that will be the case. Certainly our experience during the war would not indicate any apprehension, and money is coming in for capital development right now. I think that those who are considering developments of that kind pay attention first of all to the merits of the particular thing and whether it will be profitable; and that they have regard also for the degree of political and economic stability of the country in which they are putting their money, and its past performance in respect of allowing funds to be remitted home. I believe that the policy pursued by Canada in that respect during the war, even during the stages which were most difficult from a foreign exchange point of view, proved to be extraordinarily reassuring to investors in other countries, particularly the United States, with the result that far from there being any indication of fear of our exchange control between September 1939 and today, the embarrassing thing, if any, has been the degree of their confidence in Canada and their desire to purchase our securities.

Hon. Mr. Crerar: You do not think legislation of this kind would adversely affect that opinion in the United States?

Mr. Towers: I do not.

Hon. Mr. Crerar: I do not agree that the experience during the war is necessarily a criterion of what would happen in peacetime. I am afraid the bill would have a very definite bad effect once it became known.

Mr. Towers: Of course, various developments are now taking place, and on a very substantial scale, in the expectation that control is to be continued.

Hon. Mr. Crerar: I wonder if that assumption is correct. What reason would an American investor have for thinking that we were planning to control foreign exchange permanently?

Mr. Towers: Not necessarily permanently, but for an uncertain period of time. One reason for his thinking so would be statements by ministers and discussions in another place.

Hon. Mr. Crerar: Which of course the American investor would know nothing at all about.

Mr. Towers: Those individuals that I speak of, Senator, know very well.

Hon Mr. Crerar: I doubt that. I should think that when they come to make investments they would inquire of Senator Hayden or Senator Campbell or some other solicitor in Canada, "What are your laws in regard to this?"

Mr. Towers: I am thinking of recent cases where I myself had discussions with the people concerned.

Hon. Mr. Crerar: And you were able to persuade them?

Mr. Towers: No. They of course have as yet no right to expect that this measure will be passed, but their attitude is that whether or not it is passed they will go ahead.

Hon. Mr. Crerar: My complaint against the bill is that it gives very sweeping and complete powers to the Foreign Exchange Control Board, and that it does not appear to be necessary to have all those powers in order to guard against what you emphasized in your opening remarks, the movement back to the United States of American capital that had come to Canada. Suppose an American has invested, say, $5,000,000 in Canadian Government bonds. In a year or two years from now if he disired to sell those bonds, you could deprive him of the right to do so?

Mr. TOWERS: To sell them in Canada?

Hon. Mr. CRERAR: To sell them anywhere.

Mr. TOWERS: Oh no, he could sell them in the United States or anywhere else if he wanted to. And between September 16, 1939, and January 1946 there were certain purchases registered with the board, and although no formal commitment was made there was nevertheless a certain moral obligation to permit the resale of the securities in Canada, and if they were resold here the seller would get Canadian dollars; but he could not ask us to convert those Canadian dollars into U.S. dollars. Therefore there is no threat in respect of our foreign exchange holdings. I can say that when certain purchases were taking place in 1943 or 1944—I am thinking particularly of Canadian dollar securities of the Dominion Government—I on more than one occasion spoke to the presidents of one or more of the very large institutions which were making these purchases for their American accounts—because it had nothing to do with their Canadian business —and I said, "Do you realize that you are buying in connection with your American business a Canadian dollar domestic security which you may be able to resell in Canada but for which you may not be able to get United States dollars? Do you realize that difficulties after the war may necessitate the continuance of foreign exchange control, if that is the government policy at that time?" The answer was: "Yes, we realize what we are doing. If you want us to cut down on this particular order at the time of the Victory Loan, if you say that you are not wanting to sell these securities in the United States, we will cut down our order." And that is what they did, in a very co-operative way, but they subsequently bought bonds in the open market. The only reply of the investment committee of the great institutions I am thinking of is, "This is a most extradordinary experience, that a foreigner should come to an American company and say he does not want their money." I did not accomplish anything. In fact, the result was a set-back because the feeling that their money was not wanted just increased their appetite.

Hon. Mr. CRERAR: They would of course naturally have a desire to help Canada during the war.

Mr. TOWERS: Oh, excuse me, I pointed out that it did not help Canada at all. It was purely a matter of their desire for an investment, nothing else. They said they were not concerned about temporary conditions, that it was an investment for a generation. Now, that is very flattering.

Hon. Mr. CRERAR: There is no danger of the flight of that capital back to the United States then?

Mr. TOWERS: On the contrary, I can think of a case where the holdings of Canadian government domestic bonds acquired during the war now aggregate $100,000,000 in one block. In other words, a different president, a different investment committee, a different international picture and exchange outlook for Canada could cause those people to say one day: "Well, we have a decent profit on this $100,000,000. It is time for it to come home." Without control, one man could set in train a demand for $100,000,000 U.S. dollars in one block.

Hon. Mr. CRERAR: And you want power to prevent him from doing that?

Hon. Mr. HAYDEN: To regulate.

Mr. TOWERS: The proposal is, of course, not power to regulate, but power to say it just cannot happen at all until further notice.

Hon. Mr. CRERAR: Do you think there is any danger, say over the next five years, of Canadians, apart from Americans, desiring to seek refuge in the United States for their capital?

Mr. TOWERS: All I can say is that it has never happened before in any volume, and that is not what I would particularly fear. I think that without control of export of capital they naturally would want to buy certain securities on the New York market. They have not been able to do so now for nearly seven years, and there is a great variety of investments there. What the volume of those purchases would be, no one can guess, but at times in the past it has been very substantial. I do not know whether that would involve a drain on our cash reserves of foreign exchange of $100,000,000 or $200,000,000.

Hon. Mr. CRERAR: Do you anticipate that danger might arise through excessive purchases of goods outside of Canada?

Mr. TOWERS: That is just what the objective of preventing export of capital is, to make sure as far as possible that there are no restrictions on trade.

Hon. Mr. CRERAR: You are asking for these powers to protect the external value of the Canadian dollar. I think that is the phrase used in the preamble of the bill. How would that danger arise? Do you anticipate it might arise from, say, people in Canada wanting to buy United States goods to a very large extent?

Mr. TOWERS: The objective is that they should be able to buy any United States goods that they want to, but that neither the non-resident should be able to get U.S. dollars through the sale of his Canadian securities nor that our funds should be used for the purchase of U.S. securities.

Hon. Mr. CRERAR: Let me put it this way. Supposing Eaton's, which is a large retailing establishment in Canada, wanted to buy half a million dollars' worth of goods in the United States for sale through its stores, there might come a time in your judgment when the Foreign Exchange Control Board would say to Eaton's, "No, you cannot do that."

Mr. TOWERS: God forbid! sir. We have never done that, and I hope we never shall under this proposed legislation.

Hon. Mr. KINLEY: But you control price, and that is the basis of all business.

Mr. TOWERS: There is that fair value provision.

The CHAIRMAN: Order! The witness belongs to Senator Crerar for the time being.

Hon. Mr. CRERAR: It seems to me there is no question that what Mr. Towers asks for in the bill gives the Foreign Exchange Control Board the power to say to Eaton's, "You must cut that down to $200,000."

Mr. TOWERS: No, there is no such power at all.

Hon. Mr. CRERAR: Well, say $500,000.

Mr. TOWERS: No; or $10,000,000. They have the right at all times to make import contracts.

Mr. CRERAR: Why not make that clear in the bill?

Mr. TOWERS: I thought it was clear. There is a provision in the bill that an import contract cannot be refused by the Board.

Hon. Mr. CRERAR: There is the question of fair value.

Mr. TOWERS: Yes. If the parties to the transaction are at arms length—as they would be, we will say, in the case of Eaton's—we would have no basis for questioning values. It is only when we know that the transactions are between two parties who are related to each other that the practical question of fair value arises.

The CHAIRMAN: Senator Howard, have you any questions?

Hon. Mr. HOWARD: Has the ratio of United States capital investment in Canada in the last six months increased or decreased over the previous six months?

Mr. TOWERS: The amount?

Hon. Mr. HOWARD: Yes.

Mr. TOWERS: There are really two compartments to that question. Are you referring to direct investment in business here or to the purchase of securities?

Hon. Mr. HOWARD: Both; they are almost the same thing.

Mr. TOWERS: I shall have to get those figures for you, Senator.

Hon. Mr. HOWARD: You do not know off-hand.

Mr. TOWERS: No, they are not in my memory.

Hon. Mr. HOWARD: They are running very high?

Mr. TOWERS: All I can say at the moment is that since the change in the exchange rate on July 6, naturally the purchase of ordinary market bonds has dwindled. On the other hand, it has not had any effect on certain direct investment projects.

Hon. Mr. HOWARD: My next question relates to administration. Recently a company in the United States called its preferred stock and issued new preferred at a rate of interest lower than the current rate. At the same time it issued rights to the stockholders. I was surprised to learn that a resident of Sherbrooke who wanted to take up ten shares of the new rights had been told by the Foreign Exchange Control Board, "Nothing doing. Sell your rights."

Mr. TOWERS: That was true during the war; and up to the present time there is no authority either to purchase new securities or to reinvest when a call takes place.

Hon. Mr. HOWARD: I thought that was a pretty drastic ruling when the amount involved was within $200. That is all I have to say.

Mr. TOWERS: Excuse me, I find I have made a mistake. Reinvestment in securities which have been called has been allowed all through the exchange control. The point I went astray on was as to getting the cash to exercise the right.

Hon. Mr. HOWARD: There is no question that the securiites were exchanged for new securities; but she could not take up her rights.

The CHAIRMAN: Senator Bench.

Hon. Mr. BENCH: Since I am not a member of this committee perhaps I should defer my questions until those who are members have had an opportunity to secure whatever information they desire from Mr. Towers.

The CHAIRMAN: That is all right. Go ahead.

Hon. Mr. ROBERTSON: I extended to all members of the Senate an invitation to attend and participate in the proceedings of the committee. Certainly there is no question at all that senators, whether members of this committee or not, have a perfect right to ask questions.

The CHAIRMAN: I think the witness will be questioned with greater clarity if we proceed in the order of the senators sitting around the table. I know Senator Bench is not a member of the committee.

Hon. Mr. BENCH: Thank you, Mr. Chairman. The fundamental question I have in mind I think should be dealt with by the minister. Perhaps I might ask Mr. Towers this question about a feature of the bill which seems to me to stand out in connection with section 3. The section reads:—

> His Majesty is bound by this Act and, for the purposes of this Act, is deemed to be a resident when acting in right of Canada or in right of any province of Canada and a non-resident when acting in any other right.

I assume that as a result of that section the province of Ontario could not refinance a hydro issue, say, in New York without a permit from the Foreign Exchange Control Board?

Mr. TOWERS: That is true.

Hon. Mr. BENCH: I would point out that section 92 of the British North America Act reads as follows:—

> In each province the legislature may exclusively make laws in relation to matters coming within the classes of subjects next hereinafter enumerated; that is to say,—
>
> 3. The borrowing of money on the sole credit of the province.

With that preliminary statement of what appears to be clearly the law in the British North America Act, I would like to ask whether or not the Foreign Exchange Control Board or the government, so far as you know, has given consideration to that matter of the exclusive jurisdiction of the provinces?

Mr. TOWERS: I think, Mr. Chairman, that is a constitutional point which should be dealt with by the minister. Should it not?

The CHAIRMAN: Yes. Have you any other questions, Senator Bench?

Hon. Mr. BENCH: No, not to Mr. Towers. I have a question to ask the minister later.

The CHAIRMAN: Senator Lambert.

Hon Mr. LAMBERT: You emphasized, Mr. Towers, very graphically the flight of capital. Would it be possible for you to indicate briefly the form in which capital might take its flight? You cited the purchase of securities in the United States. I would judge that that would represent the main threat in your mind as to the flight of capital, but what other forms might that take?

Mr. TOWERS: Without control over export of capital, anyone who had a Canadian dollar bank balance could ask for United States dollars in exchange. That has never happened in Canada on any substantial scale, and I would not want to dress up and bogey in suggesting that control over export of capital is necessary. Therefore I assume that Canadians in the future, as in the past, would not in any circumstances get sufficiently frightened by Canada's financial position as to try to convert their bank balances into U.S. dollars. I dismiss that as highly improbable and say that the main risk is, (*a*) utilization of substantial amounts of U.S. dollars for purchases of American securities, not through fear but as a desirable investment; and (*b*) the risk which overhangs us that non-Canadians may decide that it would be better to take their money home rather than retain all their Canadian investments.

Hon. Mr. LAMBERT: Suppose Americans who hold large amounts of our securities sold them and withdrew the proceeds, would you consider that as a flight of capital too?

Mr. TOWERS: Yes.

Hon. Mr. LAMBERT: If investors in the United States who had bought Dominion Government bonds or, say, those of the recent Shawinigan power flotation, wanted to sell those bonds on their side and take their money out, you would prevent their doing so just now?

Mr. TOWERS: Yes.

Hon. Mr. LAMBERT: That naturally leads to the question, whether or not this country will continue to benefit by the investment of American capital either in the form of buying securities or direct investment in securities for the development of Canadian enterprises?

Mr. TOWERS: Under conditions as we look some years ahead, it may very well be that the purchase of securities in the market, what I call purely financial transactions, will be lower than they are to-day. I do not think, however, that that will have an effect on another category of foreign investment, that is, direct investment in the development of Canadian enterprises.

Hon. Mr. ABBOTT: Mr. Chairman, I must ask you to excuse me. I am advised that debate has just commenced in the House of Commons on third reading of the Income Tax Bill. I hope I shall be available this afternoon.

(Hon. Mr. Abbott withdrew.)

Hon. Mr. LAMBERT: I should think that any practice of control which would block the investment of their capital or interfere with its return to the United States would discourage enterprising investors there from putting their capital in the development of the natural resources of this country.

Mr. TOWERS: No.

Hon. Mr. LAMBERT: I submit that that is a fair conclusion to draw from the wide control which is sought by this bill.

Mr. TOWERS: I would think the two things are in rather different compartments. When an American investor buys a million dollars worth of government bonds here he buys them because he earns a little more on the investment than he could make in his own country. He is not developing any business here, it is purely a financial transaction. That is quite different from a case where American interests feel that there is an opportunity to develop, say, a pulp mill in Canada or any other kind of manufacturing enterprise, in which they become either the sole owners or operators, which is the normal practice, or in some cases come in as a partnership. That is a very common type of investment.

Hon. Mr. LAMBERT: I quite appreciate that. A man comes in to establish an industry. But I recall very distinctly meeting a most interesting person from the United States who had a large portfolio filled with some $12,000,000 worth of Dominion government bonds. He represented a very large family trust and paid periodical visits to this country. He also would have a certain percentage of his investments in what he considered good industrial or power utilities. It seems to me that those investments represented a pretty close second factor at any rate in the development of our country by maintaining in the United States this financial interest in Canada. I do not think there should be any tendency to prevent that person from at any time negotiating his holdings here into some other form of investment which he might consider more advantageous to himself. We cannot very well interfere with such an investor, particularly when he has got to distinguish between sound investments and securities of a very speculative nature.

Mr. TOWERS: Of course, we do not in fact interfere with Americans making investments in Canada. I think what you have in mind is that the continuance of foreign exchange control would discourage them from doing so by refusing to give them back United States dollars when they sell their securities here; in other words, refusing to allow them to withdraw their capital. I do not think anyone would argue that foreign exchange control is a desirable thing in itself; certainly not; but the problem is the alternative. I would say this: if there were no control over the export of capital, and if that produced a situation where foreign exchange resources were going down and it looked as if they were going to be insufficient, then with the worry you have a complete freeze-up in regard to any new investments, because the foreigner who contemplates investing in a new enterprise will feel after looking around the world that the various countries have got out on the end of the limb in foreign exchange resources.

When they have, one of the things they are forced to do is to embark on a qualitative control of imports, but in some cases before they do so they refuse to permit interest on dividends to be sent outside the country. That is what the foreign investor is concerned with, particularly the one who is investing in a plant. He wants to know if he can get his profits back home. In countries where they got into a poor foreign exchange position they have, in many cases I may say, taken it out on the foreign investor. First of all they have frozen his profits, they have not allowed him to remit them home. If export of capital threatened to produce that situation in Canada, you would not have any more direct investments.

Hon. Mr. LAMBERT: The disturbing factors in the situation which make it necessary to have a certain measure of exchange control at the present time are not the factors that exist between Canada and the United States; they are due, if anything, to the factors that have developed between this country and Great Britain and the continent of Europe. Am I not correct in saying that the policy of the Foreign Exchange Control Board at the present time, judging from Mr. Rasminsky's evidence before the Banking and Commerce Committee of the House of Commons, as set out in No. 2 of the Minutes and Proceedings of Evidence of that committee, is that there is no necessity whatsoever for any formalities in connection with transactions with the United Kingdom simply because we have a great surplus on our side of the ledger now, due very largely, I suppose, to the loans of upwards of $3,000,000,000?

Mr. TOWERS: We have not got any sterling, but our current receipts from the United Kingdom are very substantial; therefore we can readily afford to buy.

Hon. Mr. LAMBERT: Let me read from this Mr. Rasminsky's evidence:—

> The reason for that of course is that the United Kingdom and the rest of the sterling area has an adverse balance with Canada. They tend to be short of Canadian dollars. Nothing gives us greater pleasure than to see transfers of Canadian dollars to the sterling area or purchases of sterling, which comes to the same thing. There is therefore no point in any formalities or in our asking what the money is to be used for, whether it is a current account transaction or whether it is a capital transaction. So far as the United States is concerned it is the United States which is the large owner of Canadian securities. If there were any attempt on the part of Canadians to export their capital from Canada—which there is not at the present time—it would, as things stand now, in all probability by towards the United States rather than towards any other part of he world that they would attempt to export their capital. It is therefore particularly with the United States that it would be inappropriate for us to attempt to operate a pure exchange stabilization fund which did not look to the underlying transaction giving rise to the demand for foreign exchange.

I quote that simply to bring out the contrast in the policy of the Foreign Exchange Control Board towards the exchange rate of the pound sterling and that of United States.

Mr. TOWERS: To put it another way, as the result of the war and the loss of foreign exchange reserves of the United Kingdom in Western Europe, many of our best customers have no United States dollars with which to pay us in full for surplus imports.

Hon. Mr. LAMBERT: There again you come back to the old technique prior to the war, when our imports from the United States greatly exceeded our exports to that country, and balances were cleared periodically by virtue of the excess of exports from Great Britain to other parts of the world. Great Britain is trying to regain her export business, and at the present time it is, I understand, equal to or in excess of what it was in 1939. If our excess of imports from the United States in the ordinary course of trade now as before the war continues, our surplus holdings of American dollars in this country will tend to diminish?

Mr. TOWERS: Yes.

Hon. Mr. LAMBERT: Then is there not very good reason for thinking that before long British exports will again be a factor in this triangular clearing of accounts between Great Britain, Canada and the United States?

Mr. TOWERS: Yes. In other words to be really successful not only in re-establishing but in greatly improving her export position all around the world the United Kingdom will in a few years time when the transition period credits are exhausted, have to get on her own feet from successfully exporting in volume double that of pre-war years. In those circumstances the volume of our sales to the United Kingdom and to certain European countries will then give us ample United States dollars with which to meet our debt to the United States. That is the hope, but one cannot forget that the process is one of normally expanding business.

Hon. Mr. LAMBERT: I have drawn my own conclusions from the evidence given to the Commons Banking and Commerce Committee and the discussion which took place in that House. It seems to me that one feature of our financial policy today should be to help Great Britain by means, might I say, of limiting to a certain amount our own imports from United States and at the same time encouraging the development of our imports from Great Britain —something which could be influenced by the control of foreign exchange.

Mr. TOWERS: The Foreign Exchange Control Board has no influence, no power, nothing which has any bearing on that situation at all. The only exception is this: if someone wanted to remit money to London for any purpose, as matters now stand that is allowed; but in fact very few people want to, so that the contribution to trade arising from capital remittances is something you could put into a hat.

Hon. Mr. LAMBERT: Then may I ask this concluding question? It relates to what Senator Crerar was dealing with, the possibility of interfering with the ordinary flow of trade between the United States and Canada. In discussing three methods of foreign exchange control Mr. Rasminsky said:—

> The third method, and the method which the government in introducing this measure has decided to follow, is the method of exchange control. That is a method under which the government takes power to fix the rate of exchange and stands ready to buy and sell foreign exchange at those fixed prices provided that, through its mechanism, the Foreign Exchange Control Board approves the type of transaction giving rise to the exchange transaction itself.

In that preliminary statement which Mr. Rasminsky made before the committee of the other House I think he expressed the very essence of control more thoroughly than he did in the discussion later on. In other words, in order to have a surplus of exchange, control must extend to the trade transaction, which is the basic factor in determining our international relations.

Mr. TOWERS: No.

Hon. Mr. LAMBERT: But with the depletion of the surplus of foreign exchange, as a result of the historical fact that we import more goods from the United States than we export, it would lead to the point where permits would have to be very carefully scrutinized.

Mr. TOWERS: That would require a change in this proposed legislation, because, by the legislation it was established that the Foreign Exchange Control Board has no power to withhold a permit in respect to imports or exports of goods involving—perhaps I should not say fraud.

Hon. Mr. HOWARD: Undervaluation.

Mr. TOWERS: Yes, undervaluation. It will be recalled that during the war there was a time when certain imports from hard currency countries, mainly the United States, were prohibited and certain others were cut down. That was not by power exercised by the Foreign Exchange Control Board.

Hon. Mr. LAMBERT: In connection with the question of permits sections 25 and 26 are quite definite about permission to import or export in and out of Canada in accordance with a permit. I presume that the permit is issued on instructions of the Foreign Exchange Control Board?

Mr. TOWERS: It is automatic because section 25(2) reads:—

> The board shall not withhold a permit for the export of goods from Canada—

Section 26(2) reads:

> The board shall not withhold a permit for the import of goods into Canada—

The design there is to make sure that the board has absolutely no power over trade in goods.

Hon. Mr. LAMBERT: It is thus limited by the words "the fair value thereof".

Mr. TOWERS: Yes, the fair value clause is an exception.

Hon. Mr. LAMBERT: Does that bring in the National Revenue Department?

Mr. TOWERS: The National Revenue would have an interest in it.

Hon. Mr. LAMBERT: Would this involve anything approaching the arbitrary valuation by customs authorities which were imposed under the old tariff system?

Mr. TOWERS: No.

Hon. Mr. LAMBERT: On the question of the establishment of fair value I am a little confused as to what is actually involved.

Mr. TOWERS: The number of cases which occurred during the war is not very large, but the amounts have a certain interest. Of course we find these things out after the event has taken place; in other words, a permit has never been, to my knowledge, refused at the border in such cases. But if, upon investigation we come to the conclusion that a subsidiary company here is selling to its parent at too low a price, we then enter into discussions with the company, and have the power to refuse future permits for exportation unless we come to an agreement in regard to fair value put upon the goods. Admittedly that is the exercise of power; but, there is an appeal to the Exchequer Court should we seem to be arbitrary or unreasonable. In the past we have been able to come to an agreement in all cases, and naturally under those circumstances we do not argue over small things. The cases I am thinking of were instances where we believed the degree of undervaluation to be very substantial. When we finally came to an agreement with those concerned, the Department of National Revenue was naturally interested in the picture.

Hon. Mr. LAMBERT: I should think that conditions might arise in this country, under the administration of this control, where it would be very necessary to restrict the quantity of imports.

Mr. TOWERS: Do you mean to impose regulations on imports?

Hon. Mr. LAMBERT: Yes, by the permit system.

Mr. TOWERS: The board is not allowing those.

Hon. Mr. LAMBERT: But the board can advise, and whatever authority controls this permit system seems to me to exercise power found in this bill.

Mr. TOWERS: There is no power under this legislation to restrict this importation of goods.

Hon. Mr. BENCH: It withholds permits subject only to the qualifications in the exception provisions.

Mr. TOWERS: The exception of fair value, which could not possibly be exercised as a concealed method for restricting imports.

Hon. Mr. LAMBERT: I am not so sure but I will accept your assurance for that. May I ask you this hypothetical question? Assuming that the relations between Canada and the United States were to conform to the expressed aims of every lend-lease agreement and the Atlantic Charter—that there should be complete and free access to the natural resources and raw materials of this continent—would you care to state whether or not this measure would be to the advantage of Canada from an economic and financial point of view.

Mr. TOWERS: You are referring to complete freedom of trade?

Hon. Mr. LAMBERT: Yes.

Mr. TOWERS: I think it would not be my place to express an opinion in that regard.

Hon. Mr. LAMBERT: I do not wish to ask an embarrassing question, but would you relate that subject very definitely to the idealistic undertakings that were expressed at least in a diplomatic way during the war?

The CHAIRMAN: Senator Campbell, have you any questions?

Hon. Mr. CAMPBELL: Mr. Chairman, this is a very technical subject and I do not consider myself qualified to ask any intelligent questions of Mr. Towers. However after having heard some of the questions already asked I am bold enough to ask a few.

Hon. Mr. HAIG: I warn the witness not to fall for that statement.

Hon. Mr. CAMPBELL: The purpose of the bill, Mr. Towers, is to enable Canada to maintain a favourable United States credit and gold reserve?

Mr. TOWERS: It is to enable us to use our present holdings for the purpose of meeting a deficit in our current account arising from trade; to fulfil any commitments regarding bond maturity payable in U.S. dollars; and, in this difficult transitional period, to avoid losing so much of our capital account that we are unable to retain sufficient for the other purposes I have mentioned.

Hon. Mr. CAMPBELL: The fear that you have is the loss of capital account?

Mr. TOWERS: Yes.

Hon. Mr. CAMPBELL: Which might interfere with the ordinary trade relations between the two countries?

Mr. TOWERS: Yes.

Hon. Mr. CAMPBELL: It is a fact that today we have an unfavourable trade balance with the United States, is it not?

Mr. TOWERS: It is.

Hon. Mr. CAMPBELL: And that situation is likely to continue?

Mr. TOWERS: As I have already said, it is very dangerous to make predictions, but a loss of $600,000,000 in that respect over the next two years is by no means impossible.

Hon. Mr. CAMPBELL: Is it not true that we have always had an unfavourable trade balance with the United States?

Mr. TOWERS: Yes. In times of depression it gets almost into a balance but in good times it is substantially unfavourable.

Hon. Mr. CAMPBELL: How has that situation been met in the past before the institution of foreign exchange control?

Mr. TOWERS: Sometimes by borrowings, sometimes by reason of the fact that in our dealings with other countries—for instance the Commonwealth and Europe—we have had a surplus fund available to meet the American deficit.

Hon. Mr. Campbell: That is the surplus U.S. funds would come from trade with the United Kingdom?

Mr. Towers: Or the continent.

Hon. Mr. Campbell: Is it not probable that those ordinary channels of trade will reopen on the same basis after the transitional period has passed?

Mr. Towers: That is the $64 question. I do not know.

Hon. Mr. Campbell: That return could be assumed, could it not?

Mr. Towers: I think in view of the present state of world affairs that any assumption that we will revert to the prewar situation is awfully dangerous to make. Our hope is that we will.

Hon. Mr. Campbell: What is our situation today insofar as the United Kingdom is concerned? We do not benefit in U.S. dollars from our trade with the U.K. today.

Mr. Towers: We do not at the moment; but I would not care to say that we will not benefit to some extent within the next couple of years. But having in mind their scarcity of U.S. dollars it would be unwise to count on benefitting to a substantial extent.

Hon. Mr. Campbell: Your feeling today is that we must at all times be prepared to meet the unfavourable balances that will develop by reason of the trade between Canada and the United States, and that you are almost certain that we will have to use the present reserve to meet the demands?

Mr. Towers: Quite substantially, yes.

Hon. Mr. Campbell: It is your opinion, and I take it the opinion of your board, that on that account, if on no other, some form of foreign exchange control is necessary?

Mr. Towers: Yes.

Hon. Mr. Campbell: What was the balance prior to 1939? I think you said something about $400,000,000.

Mr. Towers: Do you mean our holdings of gold and U.S. dollars?

Hon. Mr. Campbell: Yes. You have roughly $1,100,000,000 more today than when we entered the war?

Mr. Towers: Yes.

Hon. Mr. Campbell: If it were not for the fear of the loss of these favourable balances by withdrawal of capital there would not be the same necessity for continuing foreign exchange control.

Mr. Towers: There would not; in other words, if we had no foreign debts at all the picture would be a very different one.

Hon. Mr. Campbell: Could you define for the committee exactly what you mean "withdrawal of capital"?

Mr. Towers: I mean the case of a non-resident owner of Canadian bonds may decide to sell them in Canada, obtain Canadian dollars and then go to the bank and exchange the Canadian for U.S. dollars, which he can do if there is no control.

Hon. Mr. Campbell: That is what I understand to be the meaning of withdrawal of capital. What is our indebtedness as to non-residents today? That is, what is the extent of non-residents' investments in Canada today?

Mr. Towers: I remember an estimate of U.S. investments in Canada, that is both direct and in the form of negotiable securities, in the neighbourhood of five billion dollars.

Hon. Mr. Campbell: Do you know, roughly speaking, what it was prior to 1939?

Mr. TOWERS: In 1939 I think it was estimated as four billion and some dollars. Of course it increased during the war. May I say there that I am speaking from memory only, but I think I am close enough.

Hon. Mr. CAMPBELL: With respect to that situation there is more or less of an understanding that those who have invested since 1939 will be permitted to withdraw their funds?

Mr. TOWERS: Oh no. For those who registered their purchases of securities there is a more or less understanding, although not an absolute firm commitment. If they wished to sell them in Canada they will get a permit to do so; then having got the Canadian dollars they cannot ask us for U.S. dollars.

Hon. Mr. CAMPBELL: No, I understand that. So there is no commitment?

Mr. TOWERS: There is no foreign exchange commitment at all. In fact, the contrary.

Hon. Mr. CAMPBELL: Is it not true that with the Canadian dollar balances, we will say, in the Canadian banks, those Canadian dollars can be used in the United States? Those balances can be transferred from one holder to another?

Mr. TOWERS: In the open market in New York, yes, they can be, provided that there is someone in the United States who wants to buy Canadian dollars from his colleagues. He knows that if he buys them he can use them for a tourist trip to Canada, or to buy a house or something else here, but he cannot use them to pay for exports from Canada.

Hon. Mr. CAMPBELL: In other words, the capital must remain here?

Mr. TOWERS: Yes. It can shift between one non-resident and another, but it cannot go out.

Hon. Mr. CAMPBELL: Prior to the war, prior to the foreign exchange control regulations, a person who sold securities under similar circumstances and received Canadian dollars, would then as of right be able to go to the bank and obtain United States dollars?

Mr. TOWERS: Yes.

Hon. Mr. CAMPBELL: At whatever rate of exchange was in effect at that time.

Mr. TOWERS: At the market.

Hon. Mr. CAMPBELL: And in that way, having obtained United States dollars, he would be able to export the capital from the country?

Mr. TOWERS: In obtaining the U.S. dollars he has exported it.

Hon. Mr. CAMPBELL: And that situation, you say, is one which must be watched very carefully during this transitional period and maybe for some years afterwards?

Mr. TOWERS: Yes. I did mention, as you will recall, that in the period between the two wars, as the exchange rate was allowed to fluctuate in accordance with demand and supply, that provided in that period a break on the export of Canada.

Hon. Mr. CAMPBELL: That of course would happen again if there was no foreign exchange control?

Mr. TOWERS: Yes, and no commitment in regard to stabilization rate.

Hon. Mr. CAMPBELL: With respect to the control of the rate of exchange—I do not know whether you will care to answer this question—why is it that the rate of exchange was dropped so quickly just about a month ago?

Mr. TOWERS: That is very much in the field of government policy, but if the question were not so much as to the propriety of a certain degree of change in the rate as to the advantage of doing it in steps, I would think that the advantage lay in doing it once and for all, and that a series of changes in rates—

2 per cent in July, say; 3 per cent in September, 2 per cent in January—would have caused far more upset and continuous apprehension than getting it over once and for all. But that is only a personal opinion.

Hon. Mr. CAMPBELL: It is a fact, though, is it not, that so long as there is some form of foreign exchange control the board will have control over the rate? That is, it can fix it at 10 per cent or 5 per cent?

Mr. TOWERS: Not the board, but the government.

Hon. Mr. CAMPBELL: The governor in council, on the advice of the board?

Mr. TOWERS: There are only two alternatives: to let it swing in the market wherever it wants to go, or else some body has got to stand behind a certain rate, if they have the resources.

Hon. Mr. CAMPBELL: You have defined to the committee the withdrawal of capital. The other fear that you have expressed is the export of capital. Will you now define that?

Mr. TOWERS: That is, by Canadians?

Hon. Mr. CAMPBELL: Yes.

Mr. TOWERS: That can take two forms. One form, which is not now permitted, is the purchase of U.S. securities; and the other is the export of capital for the development of certain enterprises outside the country. The latter form of export of capital is permitted under certain circumstances, not all of which I can recite from memory. But, for example, if any enterprise in Canada feels that it should acquire a foreign one because it will assist Canadian exports or assure a source of supply for imports, or that it being in the same line of business in Canada has excellent opportunities to expand that business in the United States, exports of capital of that kind are agreed upon. I have not covered the whole field, but that indicates some of the principles.

Hon. Mr. CAMPBELL: The point I have in mind is this. Assuming that you would permit Canadians to invest in foreign securities or to use their own judgment as to what capital they should risk in a new venture in the United States or to extend their present business over there, would the board not be in as favourable a position if it required a report on each transaction and retained the right to take over those securities at any time, instead of requiring the Canadian citizen to obtain a permit before entering that field?

Mr. TOWERS: With regard to the purchase of ordinary securities in the market, as distinct from direct investment in plant or whatnot, as matters stand that is not permitted at all. If it were permitted I think it would involve over a period of time a pretty substantial amount of U.S. dollars. I think it would be wrong to rely too much on those U.S. dollars being available again in case of need by vesting of the securities, that is by the government taking them over. Theoretically that could be done. I might very well be that they were taken over and sold at a time when market conditions were bad and when it would be a very painful process for the Canadian investor. Perhaps the wartime situation is something of an illustration of that. There was a time during the war when it looked as if we might have to do that very thing, that is, requisition the United States security holdings of our investors and sell them in the United States, as the United Kingdom was forced to do. If we had got to the bottom of the barrel and had had to ask for lend-lease we would have had to go through that wringer. Fortunately we survived sufficiently long so that the Hyde Park agreement came into effect, and once that was fixed we knew that we would not have to requisition those securities. But suppose we had had to requisition them—and we easily might have had to do that—then the process would have been a painful one for Canadian investors because the securities would have been sold at prices which bear no relation to present prices, in fact at prices which in many cases are one-half of the present prices. I may be unduly pessimistic, because my business experience goes back only twenty-seven years, and there have been many ups and downs in that period, but I have usually found that when you have to make a sale because you are in a fix it usually turns out that it is a very painful sale. The conditions under which we might be in this foreign exchange fix, and faced with an export of capital would probably be ones where the international and political and financial situation was looking rather dark, and might very well be one where security prices in the United States were very painful.

Hon. Mr. CAMPBELL: The value of the United States securities held by Canadians is taken into consideration in determining United States credit?

Mr. TOWERS: Oh, no, we have not taken that into consideration.

Hon. Mr. CAMPBELL: That is a favourable situation, though, in connection with the United States credit and the gold reserve?

Mr. TOWERS: That is, if one counts in the possibility of requisitioning them from our residents.

Hon. Mr. CAMPBELL: Would it not be a sort of offset as against the foreign investments in Canada? For instance, our commitments to the United States residents would be to some extent offset by Canadian investments in the United States?

Mr. TOWERS: Yes. You are thinking particularly of marketable investments?

Mr. CAMPBELL: Yes.

Mr. TOWERS: An inventory of those was taken at the beginning of the war. I do not know whether the figure has ever been mentioned—if it is mentioned at all it should be by the minister—and of course we do not know today's value. Since 1939 up to the end of 1945 some 230 odd million dollars of sales have taken place, but at prices much higher than those of 1939. What the present value of those holdings is I could not say, but it is not a large one.

Hon. Mr. McGEER: Mr. Chairman, before we adjourn may I ask if Mr. Towers could get certain information supplemental to the annual report of the board? Have you the annual report there, Mr. Towers?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: On page 7 there is a table headed, "Foreign investment in Canada, 1939." I wonder if we could get that for, say, 1920, 1925, 1929—I understand the figures before 1925 are not complete, and if they are not complete then 1925 and 1929 will do.

Hon. Mr. ROEBUCK: Why not get the figures after 1939?

Hon. Mr. McGEER: Yes, from 1939 to 1945 inclusive. And on page 8 there is a chart headed "Canadian dollar and pound sterling in New York: 1919-45." That shows the relation of the Canadian dollar to the pound sterling in the New York market, I take it?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: Could we have a similar chart made showing the relation of the Canadian and the American dollar exchange?

Mr. TOWERS: Well, this is the Canadian dollar in New York and the pound sterling in New York.

Hon. Mr. McGEER: How is it related to the American dollar?

Mr. TOWERS: This chart shows the value of the Canadian dollar in terms of the American dollar.

Hon. Mr. McGEER: And the value of the pound sterling?

Mr. TOWERS: In terms of the American dollar.

Hon. Mr. McGEER: Could we get a chart showing the variation of the American dollar in Canada? Would that be any different?

Mr. TOWERS: No, it is the same thing.

Hon. Mr. McGeer: Then on page 8 there is a chart headed "Canadian Dollar and Pound Sterling in New York: 1919-45." That, I take it, shows the relation of the Canadian dollar to the pound sterling in the New York market?

Mr. Towers: Yes.

Hon. Mr. McGeer: Could we have a similar chart made showing the relation of Canadian and American dollar exchange?

Mr. Towers: This is the Canadian dollar in New York and the pound sterling in New York.

Hon. Mr. McGeer: I see. Is ours related to the American dollar?

Mr. Towers: This chart shows the value of the Canadian dollar in terms of the American dollar.

Hon. Mr. McGeer: And the value of the pound sterling?

Mr. Towers: In terms of the American dollar.

Hon. Mr. McGeer: Could we get a chart showing the variation of the American dollar to the Canadian? Would that be any different?

Mr. Towers: No, it is the same thing.

Hon. Mr. McGeer: On page 20 there is a table of Canada's holdings of gold and U.S. dollars from September, 1939, to December, 1945. Could we have that from 1920 to 1939?

Mr. Towers: There are no comparable figures. We could get the Dominion government's or later the Bank of Canada's holdings of gold during that period—

Hon. Mr. McGeer: And an estimate of United States dollars?

Mr. Towers: —but we could not make any estimate of the private holdings during that time.

Hon. Mr. McGeer: Are not the returns from the banks filed with the government?

Mr. Towers: Yes, the bank holdings. By private I mean—

Hon. Mr. McGeer: If we get the bank holdings we can leave out the private holdings.

Mr. Towers: In respect of the banks we can get the gold holdings, but not the net United States dollar holdings. However, I think the best thing is for us to bring what we can.

Hon. Mr. McGeer: I would ask you to get as close as you can comparable figures, if they are available. Then advances by the Dominion government; could we get the rates of interest that were charged on those various advances, and the cost to the government of the moneys loaned to the Foreign Exchange Control Board? That is, what did the government pay for the money, the $300,000,000 that it advanced?

Mr. Towers: I think the rates of interest are mentioned in the report. In any event they are readily available. As to the cost to the government, I think the Finance Department would have to give you that, because it depends whether you take the short-time rate, the average rate, or what—

Hon. Mr. McGeer: I do not care whether it is short or long.

Hon. Mr. Kinley: Before we adjourn, I wonder whether Mr. Towers would amplify his statement with regard to Canada's rather extraordinary external debt, which he said is the largest in the world.

Hon. Mr. Haig: I move that the Committee adjourn until 4.30 this afternoon.

Hon. Mr. Hayden: Or until the Senate rises, which ever first occurs

Hon. Mr. Crerar: Why not make it four o'clock?

At one o'clock the Committee adjourned until four o'clock.

The committee resumed at 5 p.m.

The CHAIRMAN: Are you through, Senator Campbell?

Hon. Mr. CAMPBELL: Mr. Towers, you were speaking of the restrictions on Canadians investing abroad. I think you suggested a figure around $350,000,000 of foreign investments now held by Canadians in marketable securities.

Mr. TOWERS: I suggested that there might be something to that order, but I did so with some diffidence because of the lack of accurate information.

Hon. Mr. CAMPBELL: Is that one matter which should seriously concern you with respect to foreign exchange balances?

Mr. TOWERS: Incidentally, if I may go back: I do not recall that I used the figure $350,000,000, and if I did it was a tremendously rough estimate; I think it would be somewhat less than that. I should think in marketable investments, and again I am guessing, it would be $250,000,000 to $300,000,000.

Hon. Mr. CAMPBELL: Irrespective of what it is, so long as the board had control to take over those investments it would not be a serious matter with respect to our foreign balances?

Mr. TOWERS: I do not quite follow that question.

Hon. Mr. CAMPBELL: You have said that one of the reasons for your fears was that our foreign credits might diminish upon the export of capital.

Mr. TOWERS: Yes.

Hon. Mr. CAMPBELL: By having Canadians invest in foreign securities.

Mr. TOWERS: In adding to their holdings.

Hon. Mr. CAMPBELL: Or adding to their holdings abroad.

Mr. TOWERS: Yes.

Hon. Mr. CAMPBELL: I suggest that so long as the board has control that at any time they can take over those investments, and that anyone investing abroad does so subject to that provision, that it should not seriously affect our United States credits.

Mr. TOWERS: My comment there in fact was that if at a later date our foreign cash resources were diminished to the extent that the requisitioning of those securities was necessary it might very well prove to be a painful process in the sense that the holder might very well incur a substantial loss.

Hon. Mr. CAMPBELL: I remember that that was your explanation; but it would be a painful process so far as the holders were concerned, and might not be pleasant as far as the administration was concerned to take the securities over and realize upon them when the market was low.

Mr. TOWERS: And of course if they did lose it would mean a loss in U.S. dollars so far as the country is concerned.

Hon. Mr. CAMPBELL: But that is really not a very serious situation in the light of past experience with foreign investments.

Mr. TOWERS: There is no information in regard to exchange of Canadians on balances over the last thirty years in the New York stock market; and of course this is a feature which does not have any bearing on the policy we are talking about; it is sort of on the side. I would not be of the impression that Canada had beaten the American market over the course of the last twenty-five years.

Hon. Mr. HAIG: You could make your statement much stronger than that.

Hon. Mr. CAMPBELL: Senator Lambert has suggested that so long as foreign securities are held by Canadians and you have the privilege of taking them over, you would be on the assets side.

Mr. Towers: A potential foreign asset, that is correct.

Hon. Mr. Campbell: And the practice today is not to permit Canadians to invest or extend their foreign holdings.

Mr. Towers: That is the case.

Hon. Mr. Campbell: And it is proposed under this legislation to continue that power.

Mr. Towers: In other words the proposal is to keep the present exchange resources in an absolutely liquid form where they are instantly available, and where they are not exposed to any diminution to the falling of price.

Hon. Mr. Campbell: That in effect I suppose forces Canadians who have money to invest, to invest it in Canadian securities? Is that part and parcel of the proposal?

Mr. Towers: It is not the objective, but it is a by-product of the policy.

Hon. Mr. Campbell: It is a result of the blocking of Canadian investments.

Mr. Towers: It is a question of this: If a man cannot buy certain securities on the New York stock market, will he leave those funds uninvested or will he buy Canadian securities? That is his own decision.

Hon. Mr. Campbell: You also spoke of adverse trade balances; that is, so long as we can keep our trade balances in fair balance then there will not be any serious drain on our foreign exchange reserve.

Mr. Towers: So long as we can keep our trade balances for which we receive payment in balance, there would not be a drain on our U.S. holdings.

Hon. Mr. Campbell: You are speaking of U.S. cash credits.

Mr. Towers: Yes; but, in fact, as I indicated I believe that there will be a substantial drain on our U.S. dollar holdings over the next two years.

Hon. Mr. Campbell: Is it the source from which there will be the greatest drain over the next two years?

Mr. Towers: It is the only form of drain which we experience; because the cash reserves of the country are carried in terms of gold and U.S. dollars, and any net deficit in our accounts is settled in that form.

Hon. Mr. Campbell: I should like to ask one more question. Assuming we had no controls, would the fact that there is a deficit financing in the country have any effect on our exchange position, or would it be likely to have any effect?

Mr. Towers: I think that question relates in part to confidence, does it not?

Hon. Mr. Campbell: I suppose so.

Mr. Towers: Or it is strictly on the economic side in assuming that no alteration of confidence is felt in Canada by Canadians or non-residents?

Hon. Mr. Campbell: I was thinking really on the economic side, but I suppose it is both. It is natural to assume that if there was continued deficit financing over many years there might be a loss of confidence by foreign investors; but, on the economic side is there anything in your opinion that influences that effect?

Mr. Towers: It would depend on the general economic situation in the country.

Hon. Mr. Campbell: Internal?

Mr. Towers: Internal. What bearing deficit financing had on our internal economic situation is another subject, but the internal economic situation is what would count. For instance, if the United States had a serious depression and Canada did not; i.e., if the level of employment and national income in

Canada was relatively quite bad, then we would have a drain on our foreign exchange resources and would have to make up our minds as to what course of action should be followed:

Hon. Mr. CAMPBELL: It seems to me that one of the principal items which you fear might adversely affect our United States dollar credit position is the withdrawal of capital, over which you have effective control now and over which you would have effective control without legislation of this kind, so long as you could refuse to permit the withdrawal of capital in United States dollars.

Mr. TOWERS: But of course that refusal would not be possible, as I understand it, without legislation of this kind.

Hon. Mr. CAMPBELL: Not necessarily legislation of this kind; but supposing that a person was required to give, say, 60 days' notice before he withdrew his funds, and having given that notice would be required to withdraw his funds within a definite period, do you not think that would be sufficient control?

Mr. TOWERS: From our past experience, in so far as we can anticipate the future, an orderly withdrawal, if there was one, which—

Hon. Mr. CAMPBELL: Which the country could easily stand.

Mr. TOWERS: I cannot quite follow how that would work. You mean that there would be no control, but that people—that is non-residents as well as residents—would be asked to give notice?

Hon. Mr. CAMPBELL: There would be control. They would be required to give, say, 60 days' notice. For instance, power could be granted to the governor in council to make by order in council regulations fixing the terms upon which those funds could be withdrawn.

Mr. TOWERS: The terms upon which the board or the government would sell U.S. dollars?

Hon. Mr. CAMPBELL: That is right.

Mr. TOWERS: To the non-resident who desired to take out his capital or the resident who desired to purchase securities abroad?

Hon. Mr. CAMPBELL: I was leaving it at the non-resident who desired to withdraw his funds.

Mr. TOWERS: I would say that as everyone should be treated in the same way, that arrangement would mean that any non-resident who wished to withdraw his capital would be allowed to do so until further notice.

Hon. Mr. CAMPBELL: Yes, until some sort of crisis arose. In the light of the experience of the past and in view of our economic position today, do you think there would be any great danger of a withdrawal of large sums of money from Canada?

Mr. TOWERS: That requires a prediction in regard to the attitude of non-residents over the next few years. I would not care to make any prediction in that respect, but I did suggest this morning that non-residents will see that our foreign exchange resources are going down substantially during the time by—again I am just suggesting an order of magnitude, rather than making a definite prediction—$600,000,000 or more. Is there any risk of that causing the slightest disturbance, or is the international situation likely to be so stable during the next few years that there will not be a slight impairment of confidence? After all, it requires only a very slight worry to make them desire to withdraw those funds in a substantial amount.

Hon. Mr. CAMPBELL: You are again speaking of the next few years. I agree that there should be some form of exchange control in the next few years.

Mr. TOWERS: Incidentally, I should add this, that I have mentioned a two-year period because it was as long ahead as one even dared to make a guess on the current account deficit. We will assume that the existing credits to two other countries have been practically used up in two years, and what happens after that remains to be seen—I mean the extent to which those countries can then buy from us and the extent to which we can receive settlements in U.S. dollars.

Hon. Mr. CAMPBELL: Is it true that non-residents are no longer permitted to bring in United States funds for investment in Canada?

Mr. TOWERS: Oh, indeed they are permitted, yes.

Hon. Mr. CAMPBELL: I mean as registered funds, so that they can sell them in the Canadian market.

Mr. TOWERS: So far as bonds are concerned, no. We are no longer registering those purchases with a view to subsequent resale. So far as purchases of stocks are concerned, preferred or common, those are still being registered.

Hon. Mr. CAMPBELL: Suppose a Canadian subsidiary of an American company desires to obtain long-term credits in the United States for capital account, is it permitted to make borrowings from the parent company in the United States today?

Mr. TOWERS: In terms of Canadian dollars, yes. In terms of U.S. dollars, no, not as matters stand.

Hon. Mr. CAMPBELL: It can obtain U.S. dollars for trade credits?

Mr. TOWERS: Oh, yes.

The CHAIRMAN: Are you through, Senator Campbell?

Hon. Mr. CAMPBELL: Yes.

The CHAIRMAN: I will call on Senator Bench, who, I understand, deferred a question that he wished to ask the minister.

Hon. Mr. BENCH: Just a point or two, if you please, Mr. Abbott. The first one has to do with section 3 of the bill, which reads as follows:—

> His Majesty is bound by this Act and, for the purposes of this Act, is deemed to be a resident when acting in right of Canada or in right of any province of Canada and a non-resident when acting in any other right.

It occurs to me that that raises a constitutional question as to whether or not the enactment of that section is *intra vires* of this parliament, having regard to the provisions of section 92 of the British North America Act, particularly subsection 3. As you will recall, that reads:—

> 92. In each province the legislature may exclusively make laws in relation to matters coming within the classes of subjects next hereinafter enumerated; that is to say,—
>
> 3. The borrowing of money on the sole credit of the province.

And then you will recall that subsection 16 of that section, the catch-all subsection, says:—

> 16. Generally all matters of a merely local or private nature in the province.

With particular reference to subsection 3 of section 92, I was asking Mr. Towers this morning what the position would be if, say, the Ontario Hydro-Electric Commission wanted to refinance a borrowing in New York. Apparently under section 3 of the bill the Commission would require to have a permit from your board to do so.

Hon. Mr. ABBOTT: I should think that is right. The intention of the section is, of course, to subject the Dominion Government and Provincial Governments to the same control with respect to exchange as any citizen of the country.

Hon. Mr. BENCH: What I am wondering is about the constitutional aspect, having regard to subsection 3 of section 92 of the British North America Act. Has that been given any consideration?

Hon. Mr. Abbott: As I recall, that question was raised in the Banking and Commerce Committee of the Commons by Mr. Hazen—I do not know whether it was on this section; I think it was in connection with another section—and at the time I advised him that the bill had of course been approved by the Department of Justice and that it had also received the personal consideration of the Minister of Justice, but that I thought we had better get Mr. Varcoe's opinion on the point raised. It was left at that, the commitee having risen without its being called to my attention or the attention of the chairman that Mr. Varcoe's opinion has not been obtained. Since the question has been raised here, I think it would be desirable for this committee to have Mr. Varcoe's opinion. I do not think it would be appropriate for me to express a legal opinion on a matter of that kind . . . Oh, excuse me, Mr. Cleaver, the Chairman of the Commons Banking and Commerce Committee, has just told me that that opinion was obtained by the committee. I was not able to attend all the sittings of the committee, so I was not aware of this. I have in my hand the report of the committee's meeting on July 25, 1946, at which Mr. Varcoe's letter was read into the record. Would the committee care to have me read it now?

Hon. Mr. Bench: I would like to have it.

Hon. Mr. Abbott: The letter is dated Ottawa, July 23, 1946. It is addressed to Mr. Cleaver, the Chairman of the Banking and Commerce Committee of the Commons, and reads as follows:—

J.R. 11-450-45

Re: Bill 195 to enact the Foreign
Exchange Control Act

Dear Mr. Cleaver:

The proposals contained in Bill 195 are designed to maintain the value of Canadian currency in terms of the currencies of other countries, particularly those with which Canadians enjoy commercial relations. The objects of the measure are to be attained by fixing exchange rates, regulating transactions in foreign currency and in Canadian currency dealt in by non-residents and regulating exports and imports and transactions in securities between residents and non-residents. A Control Board operating under the direction of the Minister of Finance is to administer the Act. Persons engaged in business are required to furnish full information. Persons engaging in transactions in foreign exchange are required to keep records of such transactions and to furnish information. Enforcement provisions enable the Board to exercise control over the property of any person where this is necessary to insure observance of the Act and define as criminal offences acts or omissions which are breaches or evasions of the statute punishable by fine or imprisonment.

Such a legislative proposal appears to me to be clearly beyond the power of a provincial legislature. In any case, the exclusive authority of parliament to legislate in relation to currency, legal tender, banking, bills of exchange, regulation of trade and commerce and criminal law would seem to me to be quite adequate to support the bill from a constitutional point of view.

Such a system of control as is envisaged requires various ancillary provisions for the purpose of preventing the scheme of the Act from being defeated. I refer to the measures to regulate and prohibit transactions in property and securities between residents and non-residents. If parliament adopts the legislation, it will be on the basis that it deems it necessary in this connection to prohibit and regulate these transactions ordinarily within the exclusive jurisdiction of the legislatures of the provinces. I do not doubt that it is open to parliament to deal with such matters as part of the projected scheme of regulation and once the statute is enacted the provincial legislatures would be precluded from interferring.

Yours very truly,

(Sgd.) F. P. VARCOE,
Deputy Minister.

Hon. Mr. BENCH: With great respect to Mr. Varcoe's opinion, I do not regard it as dealing with the point I have in mind. I am suggesting that by enacting section 3 of the bill parliament may be encroaching upon the exclusive rights of the provinces to borrow money on their sole credit.

Hon. Mr. ABBOTT: As I say, I do not think it is either my duty nor would it be proper for me to express a legal opinion on that point. For what it may be worth, in my view all that we are doing in the case of a provincial government is to say this: If you desire to obtain foreign exchange to meet your obligations abroad, you must obtain it from the official source. If a province should wish to borrow abroad unofficially, I suppose it would be open to it to do so.

Hon. Mr. BENCH: Do you know if the provinces were consulted on this particular section?

Hon. Mr. ABBOTT: I cannot say off-hand. I was told that the province of Ontario was in favour of the measure, but that is just heresay.

Hon. Mr. BENCH: As I am instructed, it would appear that loans of the magnitude that ordinarily are required by, say, the Ontario Hydro Commission, are borrowed at a better rate of interest in New York than in this country.

Hon. Mr. ABBOTT: That is true, but on the other hand the cost to the Hydro might be very much greater if the exchange fell to a discount of five per cent, as it has done on former occasions. I know corporations having loans in the United States formerly found it very embarrassing under certain circumstances. This section is to ensure that as far as possible there will be common treatment in exchange matters, and that the government of Canada will handle the exchange problems of the provincial governments on the same basis that we require a private individual or a corporation to do so. That is the purpose of the legislation. As I say, I think on the constitutional point it would be better, if this committee feels it is necessary, for the Justice Department to be asked for an opinion on the specific point which Senator Bench has raised.

Hon. Mr. BENCH: It is not proper anyway to debate legal points before this committee. But I was wondering whether or not the provinces had been consulted on that matter.

Hon. Mr. ABBOTT: I doubt whether the provinces generally have been consulted, I think it is most unlikely.

Hon. Mr. BENCH: This morning you stated what the government's position is in regard to carrying on under the existing order in council and emergency powers legislation. I think you stated that the emergency powers act must be dealt with within fifteen days after the end of the next session.

Hon. Mr. ABBOTT: All orders in council will lapse fifteen days after the end of the next ensuing session of parliament. As suggested now, presumably that will be sixty days.

Hon. Mr. BENCH: And it is now proposed to amend the bill to extend its operation to sixty days?

Hon. Mr. ABBOTT: It is hoped that will be done. There does not appear to be any opposition to the suggestion.

Hon. Mr. Bench: It might be well in amending the Emergency Transitional Powers Act to extend the sixty days right through to the end of the next ensuing session.

Hon. Mr. Abbott: I doubt whether the House of Commons will accept that suggestion, for this reason: The National Emergency Transitional Powers Act covers a very wide variety of subjects. Under that act the government can now legislate by order in council on a great variety of subjects. There are still a considerable number of orders in council still outstanding. We are endeavouring to get rid of them as fast as we can. A committee of the cabinet has been sitting reviewing these various orders. Each minister has been asked to go over those which affect his particular department so we may get rid of as many as we can, but it is quite evident that some of these orders in council will have to be carried forward. It seems apparent that by March of next year a good many of them will no longer be necessary. It is also fairly apparent, I think, that in the early part of next session one of two things will have to be done: either the National Emergency Transitional Powers Act will have to be further extended, or else we shall have to embody in separate acts a number of measures which are now handled by order in council.

Therefore it was felt to be most desirable that at this session we should put into law as many of these matters which will have to be continued beyond the end of next March, shall we say. The committee may recall that at the end of the 1945 session, the Minister of Finance indicated that it would be necessary to continue foreign exchange control for some considerable time. On the 1st of last March be made a speech in Toronto in which he repeated that statement and indicated in some detail the reasons why it was felt to be necessary. If I may go back, it was stated that the measure was not introduced in 1945 because the session was a short one. This bill was introduced in the House of Commons on the 17th of June and was printed at that time. The hearings before the Banking and Commerce Committee of the House of Commons, went on as this committee knows for some time, and we were doing our best to push it along, but as honourable senators are aware, there has been a fairly heavy legislative program this session, and the bill did not get through the committee until a week or so ago. No one regrets that more than I do, but it seems inevitable that some legislation at any rate comes to the Upper House late on in the session. It is not the fault of the government, as I say, that this measure has not come here earlier, for the ordinary processes of legislation seem to take a good deal of time. But I would point this out, the bill has been available for study for those who are interested for at least two months.

Hon. Mr. Bench: You would not suggest that delays in the House of Commons would be any justification for this House pushing the bill through?

Hon. Mr. Abbott: On the contrary, I think this House should stay here and give the bill thorough consideration. I do think it is important that the bill should be disposed of this session, but I do not suggest for a moment that the Senate should restrain its consideration of the measure; just the contrary.

Hon. Mr. Bench: Your position is that the National Emergency Transitional Powers Act will probably have to be further extended?

Hon. Mr. Abbott: No, I would not think so. I hope that in the first sixty days of the opening of the next session we shall have what bills we need ready to bring down to the House. It will be quite a scramble. The House will have to "step on it"—If I may use that phrase—and it will mean that we shall have to put into legislative form various matters which are now dealt with by orders in council.

Hon. Mr. Bench: In that sixty-day period, if this measure had to be treated in statutory form, it could be introduced here in the Senate, could it not?

Hon. Mr. ABBOTT: I suppose it could. I have not considered whether it is a money bill or not. But if I may say so, it seems to me it would be a great duplication of work, in view of the considerable time that has already been put in on the study of the bill by the House of Commons Banking and Commerce Committee and by this House.

Hon. Mr. BENCH: It seems to me, Mr. Abbott, that inasmuch as the government has these powers now by order in council, even if this measure had to be treated at the next session of parliament, within sixty days of the opening of the session it could be started here, and we would have a reasonable opportunity of dealing with it. If in fact the National Emergency Transitional Powers Act is extended, as it probably will be, then is it necessary that provision should be made for the order in council?

Hon. Mr. ABBOTT: That would depend on the attitude of the other House.

Hon. Mr. BENCH: My personal position is this, I doubt whether the Senate can give proper consideration to this bill in the dying days of the session, which probably will come to an end in the next four or five days.

Hon. Mr. ABBOTT: We need not stop the session quite as quickly as that, because, as you know, the Senate is the master, the Commons cannot adjourn until this House adjourns. I have to stay here in Ottawa, although I should like to get away myself.

Hon. Mr. McGEER: Before this bill is passed we should have the views of people in the business and commercial life of this country.

Hon. Mr. ABBOTT: May I say a word on that? In the Commons Banking and Commerce Committee—I realize that does not apply here—it was considered appropriate to ask for suggestions from the Canadian Bankers Association, because the banks are vitally interested in the operation of foreign exchange. Accordingly the chairman of the committee wrote to the President of the Association early in July, and I have a copy of the reply from Mr. Rogers, the secretary. If the committee would like me to read it I will do so.

The CHAIRMAN: By all means.

Hon. Mr. ABBOTT: This letter is dated Montreal, July 25, 1946, and is addressed to the Chairman of the House of Commons Banking and Commerce Committee. It reads:—

Foreign Exchange Control Bill

> DEAR MR. CLEAVER:—We duly received your letter of July 17, asking that you be advised if any of our members would like to make suggestions concerning the above bill.
>
> Your request was placed before our members but none felt that either they or the Association on their behalf would like to make any submissions to your committee in this connection.
>
> We wish, however, to thank you for your courtesy in affording us the opportunity of being heard.

I remember a suggestion was made to me privately by Mr. Macdonnell that the banks and commercial interests should be heard. I told him that would be entirely satisfactory so far as the government was concerned. For what reason I do not know the banks did not care to come forward. I do not know what the commercial interests might want to do.

Hon. Mr. BENCH: In any event, this question is back to the order in council now, which gives the Board all the powers that would be conferred on it by this bill.

Hon. Mr. ABBOTT: Greater powers in fact.

Hon. Mr. BENCH: And the order in council will continue in force until at least sixty days after the commencement of the next session.

Hon. Mr. ABBOTT: That is right.

Hon. Mr. LAMBERT: As a matter of practical policy, in the light of negotiations already in progress between the dominion and the provinces, would you care to say that it would be desirable to have the co-operation of the provinces in connection with this section of the bill, in asking for a permit in regard to their finances.

Hon. Mr. ABBOTT: I think it would certainly be desirable to have the support of the provinces in a matter of this kind. As Mr. Towers pointed out this morning, the use of the word "permit" is a little misleading. I should think that the provinces that have external obligations, and I know there are a considerable number, would find the provisions of the exchange control very much to their advantage under existing world conditions.

Hon. Mr. LAMBERT: As a matter of practical policy, the relations between the dominion and provinces would not be prejudiced by the imposition of this clause?

Hon. Mr. ABBOTT: I do not know; I would not think so. If this is a measure which is in the interest of the people of Canada I should think that the provinces would agree. It certainly is not intended in any way to encroach upon the independence of the provinces or their rights within the provincial sphere; there is no such intention and of course it was not suggested.

Hon. Mr. LAMBERT: If they were agreeable, would it be fair to assume or to suggest the possibility of a representation by the provinces on the Foreign Exchange Control Board.

Hon. Mr. ABBOTT: The difficulty there, as I see it, is that the exercise of foreign exchange control is very much a question of high government policy, and the board is only the instrument of the Minister of Finance, who is a minister of the government of the day; it is his responsibility, and a responsibility which the dominion government must assume and be prepared to justify. I do not see how the dominion government could divide a responsibility of that kind with the provinces. I think if we have foreign exchange control at all that it is a matter of high national policy, which the national government must determine.

Hon. Mr. LAMBERT: I think you have answered the question I had in mind. Another point I was going to bring up was based upon what bearing control has on the prospective budget and financing of this country. We have a budget for this year which shows deficit financing to a certain extent. Would you care to express an opinion, as the Acting Minister of Finance, as to whether you would anticipate deficit financing in the future, and if so, if the policy of the exchange control to conserve Canadian dollars in Canada would not be designed to help to meet that situation.

Hon. Mr. ABBOTT: The second part of your question is pretty technical, and I do not think I should express an opinion. On the first part, that is as to whether I anticipate continued deficit financing in Canada: As I said yesterday in the house in answer to a question on another matter, I have never claimed the gift of prophecy but if I may express an opinion I would say that we would get a balanced budget in the not-too-distant future; and personally, so far as I am concerned I am not an advocate of continued deficit financing. However, one cannot prophesy the budget much more than twelve months ahead.

Hon. Mr. LAMBERT: With the budget of at least $2,000,000,000 as it is in this country, the problem of raising revenue to that extent, under conditions as they exist in the world to-day, might give rise to the thought in the minds of advisers in exchange control that it would be necessary to conserve Canadian dollars so far as possible in order to have them invested in our own country, similar to the policy followed during the war.

Hon. Mr. ABBOTT: I do not think the policy is actuated by the desire to save Canadian dollars for investment in Canada securities. The exchange control policy is designed, as Mr. Towers said, to conserve our U.S. dollar resources; and as the trade relations between Canada and the United States are so important that it represents probably one of the most important economic problems which the country has to face; it is the problem of getting a sufficient number of U.S. dollars to take care of our commitments in the United States. That is a problem which is shared by a good many other countries in the world to-day, as Mr. Towers has pointed out, but it is a particularly important one to Canada in view of her heavy indebted position. The measure is not designed to compel the people to keep their money in Canada in order to invest it in Canadian securities.

Hon. Mr. LAMBERT: Thank you very much.

Hon. Mr. CRERAR: Has the government given any serious consideration, Mr. Abbott, to increasing the protection against the decline of the external value of our dollar by the development of tourist traffic and the encouragement of the production of gold in Canada?

Hon. Mr. ABBOTT: As the committee knows, the government is continuing to propose fiscal legislation and we hope for the opening up of new gold mines. In respect to the tourist traffic the answer is again in the affirmative. We are spending considerable sums of money in the dominion estimates for our tourist bureau for the purpose of encouraging American tourists to come in. Judging from what I have seen in Monteral in the last two or three week-ends I have spent there they are pouring in; there is not much left in the way of goods for Canadians to buy.

Hon. Mr. CAMPBELL: There is one further question I should like to ask, following Senator Bench, in an effort to try to find a solution; I think his difficulty arises largely as a result of the lateness of the arrival of this proposed legislation. If the present controls are sufficient—and I assume they are, because they have been functioning well—would it not be possible to introduce a simple piece of legislation to control matters for a period of one year, or until the end of the next session of parliament, apart altogether from emergency legislation? I do not think there is anyone in this committee who wishes to do anything which might endanger our foreign exchange control position, or to interfere in any way with the excellent work that has been done by the Foreign Exchange Control Board during the war. I believe what troubles members of this committee, and the members of our house more than anything else, is that this legislation is introduced as a permanent measure without time limit.

Hon. Mr. ABBOTT: We referred to that this morning.

Hon. Mr. CAMPBELL: But it is very extensive in character. I should hope that within the next year, if exchange control is necessary in some respect that we might be able to free certain classes of people such as tourists and those engaged in ordinary business transactions, so long as they report the transactions.

Hon. Mr. ABBOTT: I should think that is desirable, Senator Campbell, but I do feel that in the interests of effective administration that it is almost impractical to do that by legislation. I think this was given most careful consideration, and I do feel that there must be sufficient flexibility to enable the government of the day to decide whether conditions at the moment are such that it can allow tourists to take out $1,000—to use that as an example—but a month or two months later conditions may have changed to such an extent that the figure might have to be cut down. It seems to me that if the measure is to work fairly in the interests of all concerned that there should be a considerable degree of discretion left with the administrative agency. I have given he matter of time limit a good deal of thought, and I indicated this morning that the government would be prepared to consider along the lines suggested. I would be prepared to include in the suggested time limit the provision that on the joint addresses of both houses it could be either extended or repealed. I do however feel that it is a mistake to hold out to the public, or to allow the people to believe there is any real prospect of our not being able to eliminate exchange control within such a period as a year. The government feels that would be a mistake. Under those circumstances I do not know that I can add anything.

The Committee adjourned until 8 p.m.

The committee resumed at 8 p.m.

The CHAIRMAN: Honourable members, I realize that I have to some extent been remiss in my duties as chairman of this committee. I take it that the committee this morning expressed the wish that after a member has concluded his questions he should not have another chance to examine the witness until every other senator present had had a chance to put questions.

I was going to call upon Senator Haig next, but he is not present at the moment; I suppose we should reserve his turn for him. Senator Sinclair has stated he does not wish to ask any questions. Next in line is Senator Euler.

Hon. Mr. EULER: Mr. Chairman, not pretending for one moment to be an economist, nor even a lawyer—if I may put it that way—I shall have little to say. I take it from what Mr. Towers has said that the chief purpose in maintaining exchange control is to conserve American dollars in Canada. That is perhaps the chief purpose?

Mr. TOWERS: The chief purpose.

Hon. Mr. EULER: And you do that and have done so by measures which prohibit the export of capital?

Mr. TOWERS: Yes.

Hon. Mr. EULER: You have now, I think you said, about one and one-half billion dollars of American exchange.

Mr. TOWERS: That is of gold and U.S. dollars.

Hon. Mr. EULER: Well, gold is the same thing?

Mr. TOWERS: The same thing.

Hon. Mr. EULER: You rather anticipate, I understand, that that balance will probably be diminished in the next two years by something like $600,000,000?

Mr. TOWERS: Yes.

Hon. Mr. EULER: Say $300,000,000 a year, because of the unfavourable balance of exchange?

Mr. TOWERS: Partly because of the unfavourable balance in current account transactions, and partly because of some paying off of maturities or callable issues.

Hon. Mr. EULER: I think that practically all Canadians dislike these controls and would like to see them lightened as much as possible, and in fact altogether abolished as soon as possible. It just occurred to me to mention two things, which I think have been mentioned before, on which I should like to get your opinion or perhaps that of Mr. Abbott. One is this. If gold, as you say, is just as important as American dollars or currency, would it not tend to relieve the situation considerably and conserve your stock of exchange if the production of gold could be greatly increased?

Mr. TOWERS: An increase in the export of any Canadian commodity to the United States or to other countries which pay us in U.S. dollars would help our current account situation.

Hon. Mr. EULER: Would that not be one way of doing it? We have large deposits of gold.

Mr. TOWERS: Gold is one of the things the additional export of which would help our current account situation, just as wheat is. For example, we were extraordinarily fortunate from an exchange point of view in the fact that in 1943-45 we sold $550,000,000 of wheat and coarse grains to the United States.

Hon. Mr. EULER: The fact that the price of gold was increased helped some too, did it not?

Mr. TOWERS: In 1933, yes, it did.

Hon. Mr. EULER: May I ask—perhaps this is a question that ought to be submitted to Mr. Abbott—do you not think it would be worthwhile to make some effort, by whatever action the government might see fit to take in the way of taxation changes, to make possible a much higher production of gold, in order to relieve the situation?

Hon. Mr. ABBOTT: It all depends on how much it would cost to produce the gold, Senator. I would say there is a limit beyond which any government should go in diverting men, materials and machinery to the production of any commodity such as gold, which is sold at a fixed price in the United States. It is true that up to the present and so far as one can see in the future the United States treasury will buy gold at $35 per ounce, U.S. funds.

Hon. Mr. EULER: Not much doubt about that, is there?

Hon. Mr. ABBOTT: I should not think so, no. But they have been doing that for some time and they have accumulated very large stocks of gold—as Mr. Towers has indicated, about twenty billion dollars. The fact that one can get $35 U.S. funds for gold to-day depends upon the willingness of the United States to continue to purchase it at that figure. If it were not for that willingness, gold would not have any such value. I think we all appreciate that. It has a certain value for commercial purposes. There are some other countries which would like to buy it—India and some others have been mentioned—but they are not countries which possess U.S. dollars, and I do not think Canadians would be interested in selling gold to Indians for rupees, or to some other countries for sterling. So the value of gold as an international medium of exchange to-day depends upon the continued willingness of the United States to accumulate gold. I have no idea how long they will be willing to do that. If I were directing American policy I think I would call a halt to it at some time.

Hon. Mr. EULER: Have you any reason whatever for thinking that the United States would not take all the gold that we could offer?

Hon. Mr. ABBOTT: No; but on the other hand I do not think it would be economic for Canada to continue to stimulate the production of gold in areas where it costs a great deal more, shall I say, than $35 an ounce to get the gold out of the ground.

Hon. Mr. EULER: You think that is the case?

Hon. Mr. ABBOTT: Yes, for what it is worth I think that is the case.

Hon. Mr. EULER: I am of course referring to the recent budget and taxation.

Hon. Mr. ABBOTT: Mind you, before 1933, I think, the price of gold was $20.67 an ounce. There was a great deal of criticism of Mr. Roosevelt's action in revaluing the price of gold. In my opinion I do not think this country can lift itself by its boot-straps by subsidizing the price of gold.

Hon. Mr. EULER: I am not suggesting that we should subsidize the price of gold. I am merely asking—and of course the answer is self-evident—whether if you had a much larger production of gold you would not improve your standing so far as American exchange is concerned. There is no question about that, is there, Mr. Towers?

Mr. TOWERS: That is correct.

Hon. Mr. EULER: Then it just becomes a matter of doing such things as will make it possible to increase our production of gold. Another question that I want to ask Mr. Towers is this. Now that our dollar is at par with the American dollar and therefore will buy more than it used to in the United States, will that tend to increase our purchases in that country?

Mr. TOWERS: In the normal course of events I would say it would tend to do so. Under existing conditions importations from the United States are governed not so much by price as by ability to get goods. At the moment, then, and for perhaps a year to come, I think our purchases would be of the same volume whether or not the American dollar was at a 10 per cent premium or at par. But over a longer term the ability to get United States goods at a somewhat lower cost in Canadian dollars would tend to increase the purchases.

Hon. Mr. EULER: Then of course it would follow that to that extent it would diminish your supply of American dollars. It would affect your stock pile—if I may call it so—of American exchange.

Mr. TOWERS: Yes.

Hon. Mr. EULER: On the other hand, will the fact that the American dollar will not buy so much in Canada as it did before tend to diminish purchases in Canada?

Mr. TOWERS: I do not think so; or, if so, to a very small extent, because their purchases under existing tariff relationships between the two countries tend to an enormous extent to be of the raw materials which they need, and the volume of those purchases is largely governed by the degree of activity and prosperity within the United States.

Hon. Mr. EULER: What is the amount of Canadian investments in American securities?

Mr. TOWERS: That I do not know. In response to questions earlier I was rash enough to say that the value of negotiable American securities owned by Canadians might be $250,000,000 to $300,000,000.

Hon. Mr. EULER: Is that the total of our investments in the United States?

Mr. TOWERS: Those are marketable securities. Over and above the total investment there are certain direct investments in major American companies.

Hon. Mr. EULER: They would run to more than a billion dollars would they not?

Mr. TOWERS: I do not think so. If I may go from guess work to the Dominion Bureau of Statistics figures I can give you a more satisfactory answer. As of December, 1939, for all kinds of investments—marketable securities, direct investments, investments of our railroads there in subsidiary railways—the total was $898,000,000. That estimate, so far as bonds are concerned, is based on current prices; as to stocks or investments in subsidiaries, it is book value. So you can see it is very much of an estimate. Since 1939 we have realized on $368,000,000 of our capital holdings. So if book values and bond prices are the same as in 1939 our United States investments to-day are worth $530,000,000. That includes direct investments and the railway assets in the States.

Hon. Mr. EULER: Are you comparing them on exactly the same basis as American investments in Canada?

Mr. TOWERS: Yes, they are made up in the same way.

Hon. Mr. EULER: So I suppose you might take that as a set-off against American investments in this country?

Mr. TOWERS: Yes.

Hon. Mr. EULER: Would you say that by reason of wiping off the discount on Canadian funds there has been a pretty heavy loss to Canada by the suddenness with which it was done?

Mr. TOWERS: No.

Hon. Mr. EULER: I do not know whether I should ask you this question; it may not come within the purview of this particular bill. What were the advantages of wiping it off so suddenly?

Mr. TOWERS: Wiping it off at all, or suddenly?

Hon. Mr. EULER: Take it both ways.

Mr. TOWERS: On the question of at all, that was a matter of major government policy of course, the reasons for which have been explained and on which I do not think I should speak. As for the desirability of doing it in one fell swoop, so to speak, rather than in two or more stages, my personal opinion would be that doing it in one move was better for Canada and created less uncertainty than if there had been two or three changes in the rate of discount. The change took place at a time and under conditions where for a great many industries it was possible, if not immediately then pretty soon, to increase their foreign selling price. As a result I do not think that any great Canadian industry is likely to be seriously prejudiced, except for that one industry whose price is fixed.

Hon. Mr. EULER: That is all, Mr. Chairman.

The CHAIRMAN: Senator Haig?

Hon. Mr. HAIG: My questions have been pretty well covered by the answers to preceding questions, and especially by the answer the Acting Minister of Finance gave me this morning.

I may say, Mr. Towers, I shall ask you some questions, but you need not answer them, and I shall not feel at all hurt if you do not. Since on the 6th day of July you put our money on a parity with United States money what do you do about our dollar in New York? I understand our money is at a discount there of from three to three and a half per cent.

Mr. TOWERS: Yes.

Hon. Mr. HAIG: Who absorbs that loss when you give us United States currency?

Mr. TOWERS: That price in the unofficial open market in New York is established by dealings between non-residents; it does not directly affect Canada. In other words, an American who holds certain Canadian dollars in a bank account here is at liberty to sell those dollars to another American at any price they see fit to establish between themselves. There were times in the early stages of the war when those transactions took place at a discount of about twenty-five per cent. Suppose one American wants to sell those dollars, he tries to find another American who wishes to buy. The American who buys them may want to take a trip to Canada. He can use these dollars for that purpose, or buy a house here or some securities here; but he cannot use those dollars on the unofficial market to pay for Canadian exports or services. It is a non-resident market in which Canadians never intervene.

Hon. Mr. HAIG: When you put that control on news of it reached our city about seven o'clock that night. The banks closed at three o'clock. What happened to customers if the banks who from three o'clock until six o'clock took in American exchange, who made the loss? Before you answer let me call to your mind that when they took that money in the law was that they must turn it into the bank next day, and of course they could not do so at the former rate. Who suffered that loss?

Mr. TOWERS: I am sorry to say that the merchants or others who took in that United States currency after banking hours did suffer the loss which you mention. I think it was very unfortunate that they had to do so. I do not know that there was any practical means by which the Foreign Exchange Control Board could assume that loss.

Hon. Mr. HAIG: The object of this proposed legislation is to control the flight of capital?

Mr. TOWERS: Yes. "Flight" may be a strong word in respect to some aspects of it, that is, the possible purchase of American securities by Canadians —not that they were afraid of Canada's position but they wanted to make investments.

Hon. Mr. HAIG: No, I am taking the word in the sense in which you used it.

Mr. TOWERS: Yes.

Hon. Mr. HAIG: You think it safer for us Canadians to have that money conserved so that our exports and imports can more easily continue without any curbs on our trade?

Mr. TOWERS: Yes.

Hon. Mr. HAIG: You suggested this morning—I am not trying to pin you down—that at least looking twenty-four months ahead you would need some controls during that period?

Mr. TOWERS: I do not think I put it quite that way, but in making some perhaps rash guesses in regard to the decline in our holdings of gold and United States dollars during that time, I thought it possible that they might go down to $600,000,000 or $700,000,000. That would be a very formidable decrease, and taken in conjunction with the uncertainties of the international situation during that period of two years and after, it seemed to me to be trusting too much to Providence to assume that we could go down so fast and at the same time respond to any demand there might be for United States dollars for the purpose of taking capital out of the country; that the load of the two things was probably more than we could bear.

Hon. Mr. HAIG: Another question. The government now gives assistance to ex-service personnel, both male and female, who desire to take up university courses or post-graduate courses. Some of these post-graduate courses are not available in Canada, but they are in the United States. How would those desiring to take advantage of those courses in the United States get United States currency?

Mr. TOWERS: They will have no difficulty about that. I might say that even at the worst period of the war, when our exchange dollars were at the very lowest, those who needed to take education in the United States of a character which it could reasonably be argued was not available in Canada, were supplied university funds for that purpose. Of course, there is all the more necessity for following that policy to-day.

Hon. Mr. HAIG: All that is required is a certificate from a university?

Mr. TOWERS: There would not be the slightest difficulty on that score. As a matter of fact it was done all through the war.

Hon. Mr. HAIG: I want to ask Mr. Abbott a question on section 3. I for one should like an opinion from the Deputy Minister on the constitutionality of that section.

Hon. Mr. ABBOTT: The Deputy Minister of Justice?

Hon. Mr. HAIG: Yes.

Hon. Mr. ABBOTT: I will see that that is obtained.

Hon. Mr. HAIG: Another question, Mr. Towers. You need not answer it unless you wish to. All policies of the Board are either submitted to the government in advance or received from the government before you put them into effect?

Mr. TOWERS: That is right.

Hon. Mr. HAIG: That is all.

The CHAIRMAN: Senator McGuire?

Hon. Mr. McGUIRE: I should like to ask Mr. Abbott a question. Now that exchange between Canada and the United States has been equalized, what is your intention with regard to Canadian currency, will it remain at par or close to par, or can you say what you would expect it to be?

Hon. Mr. ABBOTT: That question, Senator, is almost impossible for me to answer. Whether Canadian currency will stay at par with American currency or not will depend on so many factors, such as the uncertainty of the price level in United States compared with the price level here, that it is not possible for me to make any prediction. In view of the close relations between the two countries, I would hope that our currencies would stay at par. There is a great psychological advantage in their remaining in that position, but obviously if the Canadian dollar would buy considerably more in Canada than the American dollar would buy in the United States, it would not be possible to continue parity indefinitely; and the reverse would be true.

Hon. Mr. McGUIRE: Caused partly no doubt by direct action by your government?

Hon. Mr. ABBOTT: Well, it is difficult to say how much governmental action could influence the relative values of the two currencies. Some steps which the government might take would help to mitigate influences which would make a sudden increase or decrease, but in the end we cannot lift ourselves by our boot straps, and the government cannot make the Canadian dollar worth more on the exchanges than it really is worth.

Hon. Mr. WHITE: Mr. Towers, assuming a time limit was embodied in this legislation, for instance, two years, and just prior to the expiration of the two-year period a crisis arose whereby our reserves were depleted—I think you mentioned the sum of $600,000,000 might be viewed as a dangerous point—I understand you to express the fear that parliament might not re-enact the legislation. It seems to me that parliament in its wisdom would take care of a situation of that kind.

Mr. TOWERS: I think that is true. My suggestion was that if the situation was particularly difficult at that time there might be some public feeling as to whether or not the controls would be appealed. My own thought is that if the circumstances were of the type we have been discussing, that the action of parliament would be appropriate to the circumstances; but the public and business generally do not feel always absolutely certain until the thing is "fait accompli". I must add that in my remarks I was not speaking in the capacity of someone who was administering the mechanics of foreign exchange control but was rather thinking of the wider field of public uncertainty, should the thing come up at a time when the situation was particularly difficult.

Hon. Mr. KINLEY: Mr. Chairman, I submit that the matter before the committee is the subject matter of the bill; the principle has not been approved. I should like to follow up on a few questions asked by Senator Crerar dealing with trade and commerce. Mr. Towers intimated that there would be a free movement of trade under the provisions of the bill; that is, that he could not refuse a permit for imports or exports.

Mr. TOWERS: That is right.

Hon. Mr. KINLEY: I think you will agree that there is a provision that there must be a fair price going and coming.

Mr. TOWERS: Yes.

Hon. Mr. KINLEY: Who is the judge of the fair price?

Mr. TOWERS: The Foreign Exchange Board is, in a sense, the judge. It has by the bill the power to withhold an export or an import permit if it thinks the exports are undervalued or the imports overvalued. If the Foreign Exchange Control Board does in fact take action, and the importer or exporter disagrees with it, there is provision for an appeal to the Exchequer Court. But as I mentioned earlier the board would not presume to have views in regard to either export prices or import prices unless they had reason to think that the deals were taking place between two interested parties and the prices were really false prices.

Hon. Mr. KINLEY: If you are kind and want to do it, that is what you can do; but the point is, the exporter and importer—the two men to the contract—in the final analysis have nothing to do with the price?

Mr. TOWERS: You mean the American exporter and the Canadian importer?

Hon. Mr. KINLEY: If I want to buy an article in the United States I ask for a permit, and I agree with the man in the United States to pay so much for the article.

Mr. TOWERS: He is a third party and is not a subsidiary of yours or anything of that kind?

Hon. Mr. KINLEY: He is just another business man, or I might be his agent in Canada. We cannot with any finality say that the price will be. I do not refer to what you are doing but I am saying that is the law.

Mr. TOWERS: What you say is technically correct, but I certainly think that it would be madness on the part of the board to attempt to have views in regard to prices established, so to speak, in the open market.

Hon. Mr. KINLEY: Of course I am dealing with the law, not with what the board might think. Another privilege which I regard as an important one is that you can control credit.

Mr. TOWERS: May I go back a moment? If it were practical from the point of view of drafting to say that where the deal was not at arm's length but between two interested parties who were deliberately establishing either an unnecessary high value for imports or an unnecessarily low value for exports —that is all the intention is—if it were possible to put in something which would direct the board in that situation it would of course be all to the good. I do not know if it is practical.

Hon. Mr. KINLEY: Supposing the United States dollar goes up 20 cents.

Mr. TOWERS: That has no bearing on what the board should do.

Hon. Mr. KINLEY: In the next paragraph you have the privilege to control credit and in that you must be satisfied that the man can pay within six months.

Mr. TOWERS: Not satisfied that he can pay, but the intention is that payment should be obtained.

Hon. Mr. KINLEY: Section 25 (2) reads:—

> The board shall not withhold a permit for the export of goods from Canada where payment of not less than the fair value of the goods in a currency designated by the board as acceptable for such a transaction,

(*a*) has been received by a resident from a non-resident and, in the case of payment in foreign currency, the foreign currency has been sold to an authorized dealer; or

(*b*) is due to a resident from a non-resident under the terms of sale within six months after the goods are exported from Canada and, in the case where payment is to be made in foreign currency, the board is satisfied that the foreign currency will be offered for sale to an authorized dealer forthwith upon receipt.

Now it seems to me that price is the basis of business and credit is another very important feature. I should think if I had control of price I would have a great control over business.

Mr. Towers: I should say that the board has no control over price at all; it is only empowered under this proposed legislation to intervene in cases where it is very clear that export of capital is being attempted through overvaluation of imports or undervaluation of exports. In regard to that portion which refers to the terms of sale within six months unless there is authorization to the contrary, that again is an effort to prevent the exportation of capital, because if an exporter in Canada could make a sale to an importer in the United States for no payment at all or payment in twenty or thirty years hence, the control over the export of capital would completely break down.

Hon. Mr. Kinley: I have orders now from the United States on which they will give me delivery in nine months.

Mr. Towers: Are those exports or imports?

Hon. Mr. Kinley: Imports.

Mr. Towers: There is no provision in regard to imports.

Hon. Mr. Kinley: I do not think we are getting anywhere, Mr. Towers, and I am not satisfied, but let us proceed. This is restrictive legislation, is it not? As I go through the bill I see that it says that no person shall do this or that.

Mr. Towers: Foreign exchange control, I am very sorry to say, is legislation which places certain restrictions on actions. There is no question about that.

Hon. Mr. Kinley: I come now to section 35, dealing with the powers of the board. It reads:—

The board may make regulations

(*a*) prescribing forms of applications for permits, declarations and permits, including different classes of permits;

(*b*) prescribing terms and conditions to be inserted in applications and permits;

It goes on to say that everything must be done by a permit. Then in paragraph (*e*) you say this:—

notwithstanding anything to the contrary contained elsewhere in this act, exempting any person or any class of persons or any transaction or class of transactions from any provision of this act.

We tell them what they can do and you tell them what they cannot do.

Mr. Towers: I suppose that the core of the thing is that the foreign exchange control, like any other control of the kind, is the most undesirable thing. If there is any way of avoiding it without gambling with our future, that is what should be done.

Hon. Mr. Haig: Mr. Towers, it is not fair for you to make my speech.

Mr. Towers: But let us say it is necessary. The question then is what is the practical way of making it operate? If it were possible to restrict the power of the government of the day, or their creatures in administration, the board, in any way greater than that proposed here and still make the measure sufficiently flexible and workable, that would be the thing to do.

Hon. Mr. KINLEY: I often hear the lawyers talk about the rule of the law; this seems to be the rule of the board.

Mr. TOWERS: In all the cases where discretion is given I think it is true that there is an appeal to the minister in certain things, but I admit that it does not fully cover the ground of appeal.

Hon. Mr. ABBOTT: I think I should point out that the regulations passed by the board have no effect until approved by the Governor in Council which means the government of the day.

Hon. Mr. KINLEY: But this is a power of the board given by the bill.

Hon. Mr. ABBOTT: That is true, Senator Kinley, but under another section the regulations made by the board must be confirmed by the Governor in Council.

Hon. Mr. KINLEY: I do not think you would deny that the board under this bill will have power to exempt any person or class of persons.

Hon. Mr. ABBOTT: Not without the approval of the Cabinet.

Hon. Mr. KINLEY: The appeal procedure is very limited. I cannot see very much in the provision of appeal to the Exchequer Court because the business would go to somebody else before one could get the ruling of the court as to the price of an article. You said, Mr. Towers, that the matter of the raising of the value of money was a question of high government policy.

Mr. TOWERS: Yes.

Hon. Mr. KINLEY: What is the economic reason behind that?

Mr. TOWERS: I thought that question was fully covered, speaking as a reader of the statements by the minister on that occasion.

Hon. Mr. KINLEY: I know that it was not very popular in Nova Scotia. The fishermen do not like anything that interferes with their trade as between Nova Scotia and the United States. It is a rather serious matter.

Mr. TOWERS: I must say for myself that I do not feel that the value of Canadian currency has changed. I thought it was the United States dollar that had depreciated.

Hon. Mr. KINLEY: A depreciated currency is much better for trade with other countries.

Mr. TOWERS: In a certain number of cases, which of course are of public record because the newspapers reported them, I did understand that Canadian exporters were able to raise their prices in the United States. I hope that is true of the exporters of fish.

Hon. Mr. KINLEY: No, I am afraid it is not. It seems to me that if you do not control things and let the law of supply and demand operate, the whole situation of a country will balance itself from time to time by its currency.

Mr. TOWERS: I think it would have balanced itself as between the United States and Canada had prices increased here, yes; but as was indicated in the statement made on that occasion—I am not commenting now on matters of policy, because these are known facts—the American cost of living index had gone up to 142. It has not finished its rise, and I do not know where it will finish, but let us say it will be 150 or more. Well, 150 plus 10 per cent in Canada would be a pretty formidable affair for us during the next couple of years.

Hon. Mr. KINLEY: Mr. Towers, under this bill, if I as a business man want to make a trip to the United States, on business or pleasure, I must go to my banker for a permit to get some money.

Mr. TOWERS: If you will not accuse me of quibbling, Senator Kinley, I would say that you will go to the banker anyway, whether there is foreign exchange control or not, and apart from possibly being asked to say that the money is required for travelling expenses you will find no difference.

Hon. Mr. KINLEY: I have read the bill but I cannot find in it a single word that obligates me to do anything if I want to take a trip. It depends upon the board's regulations whether I can get any money. All I can do is ask.

Mr. TOWERS: That is true. Under existing conditions the situation is as I have indicated; i.e., you have no particular red tape at all, but if conditions should become as they were in January, 1940 the government of the day could limit travel abroad to business trips, or limit the amount that a person could take with him. The government does have that power.

Hon. Mr. KINLEY: The board could do that, under this bill.

Mr. TOWERS: The government could, not the board.

Hon. Mr. KINLEY: The government may approve of your regulations, but it is the board that makes the regulations.

Mr. TOWERS: But subject to approval of the Governor in Council, the powers given by the bill are conferred on government.

Hon. Mr. KINLEY: Look at section 62. You talk about capital, but that word is not defined in the bill. When you speak of capital you imply that you mean big money, but the egg money that the farmer's wife has in her purse is capital under this section.

Mr. TOWERS: I cannot see any reference to capital, and I am a bit confused.

Hon. Mr. KINLEY: Suppose one of my fishermen posts a $2 bill to his daughter in the United States, that could be confiscated under this section.

Mr. TOWERS: Some discretion is allowed there.

Hon. Mr. KINLEY: There is no discretion as to the seizure. The owner can apply to the board and pray to get it back.

Mr. TOWERS: Yes, and would get it back.

Hon. Mr. KINLEY: But if he got it back it would be, not because of a right to get it back but because of an act of grace on the part of the board.

Mr. TOWERS: As I said earlier, in the administration of a thing of this kind it is almost inevitable that some dependence has to be placed on the common sense and regard for public opinion which those who administer the law have. I do not see any way of tying the thing up in a form which would overcome the need for common sense on the part of the administrators.

Hon. Mr. KINLEY: I am talking about the law. I cannot read common sense into the law; I have got to read the law as it is written. Section 62 says:—

> Any currency or negotiable instrument which any person exports or attempts to export from Canada or imports or attempts to import into Canada contrary to this Act or the regulations, or which any person buys or sells or in any way deals with or attempts to buy or sell or in any way deal with contrary to this Act or the regulations, or the ownership or possession of which any person fails to declare as required by this Act, shall, if the value thereof does not exceed one hundred dollars, be forfeited to His Majesty forthwith without any further act or any proceedings and may be seized by any inspector or officer.

Many people in this country will never hear about that section at all unless they get into trouble on account of it. Perhaps some day a man down in my district will come and say to me: "Look what has happened to me. Is that what you did for me at Ottawa? Your are certainly not looking after my interests very well. If I cannot post a couple of dollars to my daughter in Boston without the government seizing it, it is too bad."

Mr. TOWERS: I am sure that to that man the whole thing would sound insane.

Hon. Mr. KINLEY: Absolutely.

Hon. Mr. MCGEER: And to more than that man.

Hon. Mr. KINLEY: And he is a citizen of this country. Now, why try to control small amounts like that? Why not put a floor of $500 or $1,000 in that section? A man will not be able to send a Christmas present to the United States this year unless he goes to the banker and gets a permit. And if the man happens to owe quite a bit to the bank he is likely to be told, "You had better pay up your bill here instead of sending anybody a present." I think that this bill will make a financial concentration camp of Canada.

Mr. TOWERS: Well, if I thought that were true, I would say, "Let us abandon foreign exchange control and take the consequences."

Hon. Mr. KINLEY: I am not saying that should be done. I think we should have a screen, but not an air-tight financial compartment.

Mr. TOWERS: If one only could know a practical way of doing it, I would be in complete agreement. But if you leave off control of the smaller things there is an opening through which the larger things can sometimes go out, and the control is illusory.

Hon. Mr. KINLEY: It is my suggestion that there should be a floor under this section. I know I will not get anywhere with my ideas, but, after all, it is big business that you want to control.

Mr. TOWERS: What you say in regard to the law and technicalities is perfectly correct. And, incidentally, when I said that if the facts are as serious as you mention, let us get rid of foreign exchange control, I was speaking in perfect sincerity, because—it is perhaps not my job to speak on matters of policy, but I am completely in sympathy with what you said, if only it were practical.

Hon. Mr. KINLEY: Why is it not practical?

Mr. TOWERS: Because I believe that if you relieve control so far as small transactions are concerned the large transactions can go out of that same door. That is why I believe there have to be those powers—dangerous though it may be to give them to anyone—and it is the duty of the board to try to make sure that the individual is bothered to the least possible extent by the exercise of the powers. So I am sure, sir, that the objective I seek to reach is exactly the same as yours; only you, for reasons I can understand, would sooner that in an instance such as you mentioned the citizen could get his money back as a matter of right rather than have to depend on administration. I perfectly understand that, only I do not see the practical way of getting at it, other than by some way of administration.

Hon. Mr. KINLEY: We are told that there is no price for liberty. Some people would rather be poor but free.

Hon. Mr. ABBOTT: Also, as Burke said, liberty has to be paid for, too.

Hon. Mr. KINLEY: Under the Customs Act we allowed citizens to bring back $200 worth of goods from the United States without hindrance. A few years ago the amount was reduced to $100. Under those conditions a man's small purchases were not interfered with by customs officers. You take away some of the value of a man's money when you say he cannot trade with his neighbour. That sort of thing will make us parochial, and parochialism is a sign of weakness.

Mr. Towers: The prohibitions are against transferring money to another country.

Hon. Mr. Kinley: Or to a non-resident.

Mr. Towers: Which is in essence another country.

Hon. Mr. Kinley: It was never intended by the Income Tax Act that the department would not divulge returns—not for the purpose of helping the taxpayer, but of getting all the money it could for the treasury.

The income tax feature I believe is there for the purpose of efficiency in the collection of income tax, not for the taxpayer, so that income from any source would be reported. The taxpayer is absolutely protected. Besides, the element of competition enters in, and the section should be retained.

By section 49 of the bill the Board can put a man out of business, can even make him virtually an "untouchable". The section reads:—

> Where, in the opinion of the Board, it is necessary for ensuring the due observance of the provisions of this act to exercise control over the property of any person, the Board may by order prohibit absolutely or conditionally any disposition of or dealing with the property of such person, including all property which, or any right, title or interest in or to which is owned by such person, or any specified part thereof.

The Board can even put a person into bankruptcy, and then he will be finished.

Mr. Towers: Section 49, authorizes the Board, subject to appeal to the courts, to prohibit dealings in the property of a person when in its opinion it is necessary to do so to ensure observance of the provisions of the act. The reason for that is that exchange control offences frequently relate to illegal export of currency or other property, and when such export occurs the property is beyond control, and if the offender leaves Canada he cannot be arrested for the offence, and he may be able to employ others, unknown to the Board, to carry out illegal export of his property.

Hon. Mr. Kinley: There is another section where if the person leaves the country you can do what you like with his property.

Mr. Towers: That is section 52, which authorizes the Board or the custodian appointed under section 51 to present a bankruptcy petition against the person with respect to whose property a prohibition has been issued and who remains out of Canada for the purpose of evading prosecution.

Hon. Mr. Kinley: I do not think it is advisable to give the Board such drastic power over business.

Mr. Towers: It is drastic.

Hon. Mr. Kinley: Under this bill every bank is an authorized dealer on behalf of the Board. The Acting Minister of Finance read a letter from the Bankers Association which was very significant. Under this bill every customs officer and policeman are regarded as agents of the Board. There is also authority to appoint additional agents and dealers who will have such wide powers as the Board in its judgment may give them. In short, they can do almost anything the Board wants them to do. Then the Board has inspectors and an inspector can go to a person and say, "I want to question you," and put him under oath and conduct an inquiry without reference to a court at all. I think, Mr. Towers, your Board would have too much power. It is all very well for us sitting here at headquarters, but it is a different thing altogether down among the people. I have the highest opinion of the mounted police; they have to enforce the law and they do it most efficiently. But I have known of such a case as this: A ship is wrecked and part of her cargo is afloat. We sometimes hear of a fisherman taking a case of canned goods from the ocean; then a mounted policeman goes into the poor fellow's home and alarms the wife and family while he conducts a search, and he may arrest the poor fisherman. It seems to me it is time that we who are responsible for making the laws of the country should see to it that we do not derogate all our powers to boards, whose members are perhaps earnest men, but, being specialists, they may go any length to achieve their purpose. We are told that experts or specialists sometimes look too much to the end rather than to the method. It is our job to see that they do not become autocrats.

The CHAIRMAN: I am afraid I shall have to call the honourable senator to order. This is neither the place nor the time to deliver speeches. The witnesses are here for the purpose of being cross-examined.

Hon. Mr. KINLEY: The bill is very inclusive in its terms, but I have not yet discovered anything in it to authorize the Board to cut off the wings of migratory birds! In my experience of over thirty years as a legislator, I have noticed that in the drafting of bills creating boards and conferring on them authority, the experts always asked for all-inclusive powers; they wanted to put everybody under the legislation on the principle of let those who can crawl out by exemption or prove their own innoncence. That is being sought by this legislation, and it is not democratic.

Hon. Mr. LEGER: On the question, Mr. Chairman—

Hon. Mr. KINLEY: I would point out that I am addressing the chairman. If we legislators allow officials to really make the law by regulations, then we are rapidly approaching the point where we may as well have a dictator. I feel that this measure is economic nationalism run rampant.

The CHAIRMAN: May I ask a favour in behalf of Senator Leger? He has been unable to attend our sittings until a few minutes ago, and he would like to ask a few questions.

Hon. Mr. LEGER: I am sorry, Mr. Chairman, that I was unavoidably absent last week.

I should like to ask Mr. Towers this question. Take the case of a fraternal insurance company whose head office is in Canada with many branches in the United States. Those branch offices will send their premium receipts to the head office in American funds; and similarly with claims, those are sent to the head office, and naturally have to be paid in American funds. What procedure will a fraternal insurance company have to follow to comply with the provisions of this bill?

Mr. TOWERS: I cannot say what is the exact situation with respect to the class of companies you mention, but I am sure that since exchange control in September 1939, they have had no difficulty in getting American funds, and of course the present proposals would not create any such difficulty for them. However, I will investigate and find out the exact situation.

Hon. Mr. LEGER: Their situation would not be changed under this bill?

Mr. TOWERS: No.

The CHAIRMAN: Senator Gouin?

Hon. Mr. GOUIN: Mr. Chairman, I should like to ask a question about section 32, concerning services performed by a resident for a non-resident. The section seems to require a permit previously to the performing of the services. Let me cite a personal example. Suppose I receive a letter from a lawyer in New York asking for advice on a minor matter. Before answering the letter will it be necessary for me to obtain a permit?

Mr. TOWERS: No.

Hon. Mr. GOUIN: I suppose regulations will be passed to provide for such cases, but as I read section 32 am I not obliged to obtain a permit before sending a letter giving the advice requested?

Mr. Towers: No, you are not, unless the services rendered were services for which you would ordinarily expect and ordinarily be entitled to a fee, and in this case you wanted to perform them free of charge.

Hon. Mr. Gouin: In this case I would have to charge a nominal fee, but it is very seldom that I do so.

Mr. Towers: If the ordinary practice was to perform that service free of charge, no permit is required. If, on the other hand in the ordinary course of business that was a service which should call for the payment of a fee, but you decided that for some special reason you would render a particularly valuable service free of charge, then that would require a permit.

Hon. Mr. Gouin: The ordinary legal practice?

Mr. Towers: In the ordinary case where a bill is going to be sent, it does not require any permit.

Hon. Mr. Vien: Under the bill it does.

Mr. Towers: I would say no. "No resident shall, except in accordance with a permit, perform or agree to perform, in Canada or elsewhere, for a non-resident any services of a kind ordinarily performed for remuneration otherwise——" That is the point——"than on terms that provide for payment within six months" of the service.

Hon. Mr. Abbott: The same question came up in the Commons committee. I used the same example as Senator Gouin is using now, because I am a lawyer. But I said: If I am rendering a service to a client in New York—as I have done on occasions in the past—unless I proposed to send him a bill which was not payable until twelve months later, or unless I proposed to send him no bill, I was perfectly free to render the service. If I send him the usual bill payable on demand I would not have to go near the board; I would be obliged to charge him in American dollars. That is the effect of the section.

Hon. Mr. Gouin: Even if you render the services in Canada?

Hon. Mr. Abbott: Yes.

Hon. Mr. Vien: The section is capable of another construction.

Hon. Mr. Abbott: It is. The drafting may not be of the best, but I think on careful reading it is clear that unless you are going to render the services for nothing where ordinarily you would charge, no permit is required.

Hon. Mr. Gouin: Of course, in the case of taxable costs, they are not payable until judgment is rendered.

Hon. Mr. Abbott: Then they cannot be taxable costs.

Hon. Mr. Gouin: The same thing. I cannot possibly regard the costs as due until the case has been disposed of.

Hon. Mr. Abbott: That, senator, is a matter of contract, is it not, between the lawyer and his client?

Hon. Mr. Gouin: Then there is the question of currency designated by the board as applicable to such a transaction, as to whether it would be determined by regulation.

Mr. Towers: Yes, that is so. In the case of services rendered to people in the United States the currency designated is naturally United States currency.

Hon. Mr. Gouin: Now, Mr. Towers, I come to section 34, concerning the obligations of a resident owning a company, and so on, carrying on business outside of Canada. Under this section the Board may require a resident to do such acts as may be necessary and are within his power to procure the declaration and payment of dividends and so on. Could you explain shortly the purpose of the section?

Mr. TOWERS: Yes. It is designed to ensure remittance to Canada of the earnings of foreign subsidiaries of Canadian companies to the extent that it is practicable for those companies to do so without the impairment of their business. That later qualification is a matter for discussion between the Board and the parent company. The powers involved, while they do not affect a great many people, can of course be regarded as formidable powers, and much would depend on their being exercised in a way which gave full regard to the need of the foreign subsidiary. The general objection is that the export of capital should not take place through the deliberate accumulation abroad of earnings by these subsidiaries in a desire to avoid repatriating those earnings to Canada; bear in mind that other people, exporters or those who hold American securities, those in receipt of incomes from them, are obliged to sell the proceeds of the exports or the proceeds of the interest on dividends to Canada to maintain current earnings in foreign currency, so that we can meet our obligations. It would not, I should think, be desirable to have subsidiaries retain all their earnings in foreign countries and contribute nothing to the good of Canada. That at least is the thought underlying that particular section.

Hon. Mr. GOUIN: But there is no appeal from the decisions here?

Mr. TOWERS: There is an appeal to the minister.

Hon. Mr. VIEN: I should like to inquire if, under the agreement for loan between United States and Canada to the United Kingdom there are not provisions compelling the United Kingdom and Canada, as a corollary to that obligation, to remove all the trade barriers, and as a matter of fact, even to revive the British preference. My question is directed to this point: are not these regulations creating a barrier of a character which the provisions of the loan by the United States and Canada to the United Kingdom intended to remove?

Mr. TOWERS: No, I would not say that. Canada of course has not received any loan from the United States, and therefore is not bound by any contractual obligations to the United States. Perhaps I misunderstood your earlier remarks.

Hon. Mr. VIEN: In that respect may I point out that in the act passed by parliament respecting the loans to Britain, one of the provisions was that all the agreements between the United Kingdom and the United States will apply to the Canadian loan. Is that not correct?

Mr. TOWERS: Broadly speaking it is true, in respect to the particular thought you have, that is, the freeing of trade by making sterling convertible. The United Kingdom takes that obligation versus Canada, because she is taking it versus the United States. That is the obligation to make current earnings of sterling convertible. The United Kingdom of course does not take any obligation to remove quantitative restrictions on imports; however that may be, Canada, except in respect of her obligations in the fund, has not taken on any commitments. Perhaps that is rather academic because foreign exchange control provisions do not affect the freedom of international trade in commodities and services in any way except a favourable way.

Hon. Mr. VIEN: Maybe that is true and maybe it is not. As pointed out by Senator Kinley the two parties are prevented from entering into an agreement because there is no finality as to the fixing of the price of the commodities before the board has approved of it. That might be a subject of difficulty.

Mr. TOWERS: If it should ever operate that way, or in any one case affect it as much as $10, then the whole administration has gone wrong.

Hon. Mr. VIEN: In respect to the matter of an appeal to the Exchequer Court, if a big merchant in Montreal dealing with an extensive producer in New York, agrees on a transaction and the board says no, the prices of the goods purchased should be so and so, the parties cannot agree; then the recourse to the Exchequer Court with the possibility of obtaining judgment in ten or twelve months is purely an illusion.

Mr. TOWERS: Of course the board should question fair value only when it has reason to believe—a lawyer would use a better word—there is fraud. For instance, if a subsidiary company were selling to its parent company in the United States a product at a price which is not its market value it does not necessarily constitute fraud—a lawyer would use a more appropriate term—however, I would know that it is something against the Foreign Exchange Control Board regulations as well as against the income tax regulations.

Hon. Mr. VIEN: The Wartime Prices and Trade Board is an organization parallel to the Foreign Exchange Control Board.

Mr. TOWERS: It performs a different function.

Hon. Mr. VIEN: But from the point of view of the integrity of the officials and their desire to serve the country I should say that they are parallel agencies.

Mr. TOWERS: I would hate to contradict that statement.

Hon. Mr. VIEN: I take this opportunity to say that I have seen in the operations of the Wartime Prices and Trade Board almost scandalous—I would not say dishonest—errors in judgment. I do not care to enlarge on that statement, but may I say that the same opportunity for error of judgment would exist on the part of someone in the Foreign Exchange Control Board. Suppose a Canadian manufacturer induced an officer of the Foreign Exchange Control Board to keep the product of a competitor in the United States out of this country, it would certainly be a barrier to trade between the two countries. It might not occur frequently and perhaps it is not probable but it certainly is possible. In the vast volume of transactions which would have to be submitted to the officers of your board, who would have to pass judgment on each individual case, I would see numerous opportunities of keeping out of this country certain products of foreign producers which Canadian manufacturers do not like to see in this country because of the effect of competition.

Mr. TOWERS: Of course the entry, in the first instance, of imports is automatic, and the so-called permit is simply a declaration on the usual customs entry form in regard to value.

Hon. Mr. VIEN: To make my point clear may I give an illustration? I met in Montreal recently a lawyer and manufacturer from New York who had just returned from Washington. He referred to this bill and said it was abhorent to the financial authorities of the United States, as being intended to defeat the purpose of the provisions in the agreement with the United Kingdom between Canada and the United States. He told me that he was informed in New York that it was the intention of the United Kingdom to establish a board of this nature so as to defeat the purpose of the conference that is to be held shortly in Washington. He used picturesque language in describing these United Kingdom traders, and he said that they were simply trying to defeat the provisions of the loan to Britain by enacting regulations which could not be done under the provisions of the loan.

Mr. TOWERS: I would take that remark with a considerable number of grains of salt, because I believe the United Kingdom is going to introduce in its parliament a bill for peacetime statutory regulations to replace the wartime orders in council. The United Kingdom will of course continue the quantitative regulations on imports; that is recognized by the United States and has been all along. All that is hoped for is that, in due course, as the situation in the United Kingdom gets better that they may be able to remove any quantitative control of imports. For the next three, four or five years it is absolutely impossible for them to do so. In connection with their loan from the United States they have agreed that when they apply the quantitative control they will do so in a way which is non-discriminatory as between countries, and which will pay due regard to historic *i.e.* prewar sources of supply.

Hon. Mr. VIEN: Do you treat as Canadian U.S. dollar balances the investments by Canadians in U.S. marketable securities?

Mr. TOWERS: We have some knowledge, although not accurate knowledge—

Hon. Mr. VIEN: Were the securities not all registered?

Mr. TOWERS: They were registered in 1939, but the registration has not been kept up to date. To do so of course would have required the handling of a large amount of paper work which it was considered desirable not to carry on. We know what the securities were in 1939, but we have not accurate knowledge of what they are now.

Hon. Mr. VIEN: Supposing I wanted to invest $1,000 in U.S. Steel or some other marketable U.S. securities, I could not do so without coming to the board for leave.

Mr. TOWERS: If it was in the form of asking the board for $1,000 in U.S. cash with which to buy that security the answer since 1939 would be no.

Hon. Mr. VIEN: What about the situation now?

Mr. TOWERS: It is the same situation now.

Hon. Mr. VIEN: But British investments in Canada are considered by the United Kingdom treasury as Canadian dollar balances, are they not?

Mr. TOWERS: Not as Canadian dollar balances, but as something which adds to the current earnings of the United Kingdom in this country, and therefore helps them to buy here, in the same way as the interest in dividends from interest in our investment helps us to buy in that country.

Hon. Mr. VIEN: Why would it therefore be injurious to Canadian credit if Canadians were permitted to invest in United States dollar securities?

Mr. TOWERS: What would happen in that case is that Canadians would obtain from the Foreign Exchange Control Board a certain amount, say $100,000,000 or $200,000,000—it is hard to say how much of our present holdings of U.S. dollars and invest those funds in American securities. The question was raised earlier during the meeting of this committee as to whether that might not be perfectly all right, on the assumption that in case of dire need the Canadian government could forcibly requisition from Canadian residents those holdings of American securities, sell them in the United States and get cash. That is possible, I suppose. We did not do it during the war. As I say, I suppose it is possible, but I suggested that in the type of circumstances where that amount would have to be taken you might find that the securities were being wrested from the Canadian holders under market conditions and at prices which might be very painful. It would have been very painful to the Canadian holders of securities if it had been done in 1940.

Hon. Mr. VIEN: But would you consider that at this time in post-war days it would be seriously inconvenient and dangerous for our economic relationships with the United States and the stabilization of our currency that we should have freedom of investments?

Mr. TOWERS: The United States does not care a bit about our having freedom of investment. The interest is solely a Canadian one, and the Canadian question is: Could we by buying United States securities make some money? Well, if we could—speaking from the non-foreign-exchange-control point of view, just as a Canadian individual—I would be glad to see that happen, but it does mean parting from a very substantial amount of our cash reserves which are kept in liquid form, taking the chance of their going into securities, and the subsequent chance of requisitioning those securities and converting them into cash.

Hon. Mr. VIEN: If I invested tomorrow in U.S. securities, for instance, under your regulations and in practice is it necessary to register such investments with the Foreign Exchange Control Board?

Mr. TOWERS: No. I mean, new investments in cash are not allowed, but if I as a holder of American securities decided to sell one group and buy another, for example, that need not be reported.

Hon. Mr. VIEN: In what particular does this bill add to or detract from the powers that the Foreign Exchange Control Board possesses under the foreign exchange control order?

Mr. TOWERS: There are various places where it restricts them, and various places where it makes additional provisions for an appeal to the court, and so forth. The comparison could be recited in detail, although it would be fairly lengthy. It would only be coherent if one did it from the basis of a memorandum.

Hon. Mr. VIEN: Have we got a memorandum setting out the additional powers or the powers that have been deleted? I saw a statement that was made in the other place. I must confess that I was unable—because of my own density, of course—to make head or tail of it.

Mr. TOWERS: The only additional power is the one in section 34. The restrictions of powers as compared with the present order are more numerous.

Hon. Mr. VIEN: I am sorry, I did not catch that.

Mr. TOWERS: The only additional new power is found in section 34. There are a number of restrictions, but I would need to have a memorandum made up on those restrictions, which are more detailed.

Hon. Mr. VIEN: If we could have a clear summary of the differences between the powers of your board under the order and under this proposed legislation, that would be extremely useful.

Mr. TOWERS: I have mentioned one case where the powers are greater, and we could prepare a memorandum in regard to the restrictions in powers as compared with the present order.

Hon. Mr. VIEN: As regards the appeal to the Exchequer Court, I have already mentioned that this does not seem to me to be of very great value. It may be, perhaps, in matters of long duration, but in an ordinary current operation an appeal to the Exchequer Court, to be settled in a year or two, is of no value.

Mr. TOWERS: I think, if I may say so, that it has this value: Take, for example, the provision that exports and imports shall be fair value transactions. It is clear that that fair value relates to the avoidance of transactions between two parties who have the same interest, at prices which are completely false. The knowledge that there is an appeal to the Exchequer Court would surely be a safeguard, because if the board tried to use that fair value clause to interfere with imports or exports where there was no reasonable ground for believing that there was collusion to bring about the export of capital, the aggrieved party could appeal to the Exchequer Court, which I am sure would throw out with a resounding bang any case where the board was going beyond its powers in trying to prevent collusion in matters of price so as to have the export of capital allowed.

Hon. Mr. VIEN: You think it would have that salutary effect?

Mr. TOWERS: Yes, I do. I hope that the salutary effect would not be necessary.

Hon. Mr. VIEN: In what particular would you be affected, beneficially or otherwise, if in place of the bill we continued for a period of, let us say, two years, the effect of the foreign exchange control order?

Mr. TOWERS: That is a question which was addressed to the Minister, and which he dealt with at some length. I really think it is a matter of government policy rather than of administration.

Hon. Mr. VIEN: It is coupled with the other one on which you are preparing a memorandum. If there were no Bretton Woods agreement, would you require this legislation?

Mr. TOWERS: The answer to that would depend on whether or not the absence of a Bretton Woods agreement affected government policy in regard to the stabilization of exchange rate. If the government policy was to allow the rate to fluctuate as it wished in accordance with forces in the market, with demand and supply, then the necessity for exchange control would not be so great. In those circumstances, that is where the rate is allowed to go where it wills, if a situation arises that a withdrawal of capital is threatening to take place and the rate goes to 20 or 30 per cent premium, as the case may be, that provides a brake on the export of capital. It also provides a brake on imports and a number of other things. In other words, if there is no responsibility for providing foreign currency at a stabilized rate, then the responsibility of trying to maintain a supply of foreign currency to fulfil one's commitments is lessened. The Canadian public, as well as the non-resident, then gets rationed in foreign currency in accordance with the dictates of the market.

Hon. Mr. VIEN: In the light of what you have just stated, do you visualize the perpetual necessity for such legislation?

Mr. TOWERS: The answer to that depends on the situation of Canada and of the world in general in the years to come. If there are perpetual upsets and disorganization, perpetual political troubles, perpetual recurrence of war and fright and movements of capital, then in such a world we are in for foreign exchange control and many other things, I am afraid, throughout our lifetime. I think that everyone is hoping that that is not the world we are going to live in; but I do not think that anyone—if you will forgive me for being platitudinous and making an obvious remark—I do not think that anyone can read newspaper articles these days and feel that we are out on the high plateau of peace and prosperity.

Hon. Mr. VIEN: What is the length of our Bretton Woods commitments?

Mr. TOWERS: Our Bretton Woods commitments can be withdrawn from, without notice, at any time.

Hon. Mr. VIEN: Therefore there is no fixed period in respect of our commitments?

Mr. TOWERS: None whatever. Any member of that organization can withdraw without notice at any time.

Hon. Mr. VIEN: So we are not committed for any definite period?

Mr. TOWERS: No.

Hon. Mr. VIEN: When the agreement was entered into at Bretton Woods did you immediately visualize that it implied this foreign exchange control to provide the stabilization that you have referred to?

Mr. TOWERS: Not necessarily so long as it was the policy to stabilize the rate. Then, unless and until world affairs settled down to a greater extent than one felt was probable, that foreign exchange control would be necessary. I do not know, but it might have been government policy to stabilize the rate, as was done during the war, whether or not there had been a Bretton Woods agreement; but of course when the Bretton Woods agreement came along a commitment was taken to maintain a stabilized rate, that is, a rate which did not tend to fluctuate from day to day, so long as Canada was a member of that organization. But of course when it is in Canada's interest to do so, she can leave the organization without notice.

Hon. Mr. VIEN: But when did it occur to you or your advisers that a measure of this kind would become necessary?

Mr. TOWERS: It occurred in September 1939 speculatively, so to speak, it occurred much more forcibly in May of 1940, and it kept on occurring at times during the war as one saw its scope and the complete disorganization which it was causing.

Hon. Mr. VIEN: What I have in mind is this. If I recall correctly, when the Bretton Woods agreement was submitted to parliament there was no reference to that.

Hon. Mr. ABBOTT: If I may interject, I think the Minister of Finance stated so in 1945; it may have been before.

Hon. Mr. ROBERTSON: Section 4, page 20 of the Bretton Woods Monetary Conference deals with it.

Hon. Mr. ABBOTT: But the Minister of Finance stated in the session of 1945 that a continuance of foreign exchange control would be necessary.

Hon. Mr. VIEN: Of course, there was an obligation to stabilize exchange.

Hon. Mr. HOWARD: But not to control currency.

Hon. Mr. VIEN: It was to collaborate for the purpose of maintaining stability with other members and to avoid competitive exchange relations. That does not refer to the necessity of a piece of legislation of this kind.

Hon. Mr. ROBERTSON: There might have been at some other time.

Hon. Mr. VIEN: Yes.

Hon. Mr. ABBOTT: According to the memorandum I have here, it was in the session of 1945 that the government announced its intention to introduce legislation to put exchange control on a statutory basis, but the pressure of parliamentary business necessitated deferring it to the present session. In his speech in Toronto on the 1st of March of this year Mr. Ilsley referred to the matter again in more detail. After dealing with the international financial outlook and statement which had been made in the previous session he stated: "The government has come to the conclusion that the uncertainties in the world situation are such that the only prudent course to pursue is to continue foreign exchange control." That was last March, and, as I say, it had been previously announced in the session of 1945.

Hon. Mr. VIEN: But one would wonder why it could not have been part of the Bretton Woods legislation which was introduced last session.

Hon. Mr. ABBOTT: Because that legislation was simply to confirm an agreement entered into at Bretton Woods by the nations represented there. It took the usual form of legislation concerning an agreement, the agreement appearing as a schedule to the act.

Mr. Towers has pointed out to me that that was confirmed at the session of 1945, when the minister announced it had been intended to put foreign exchange control on a statutory basis, but that pressure of parliamentary business prevented it being done at that session, and it was brought on at this session.

Hon. Mr. MCGEER: Can you get the record?

Hon. Mr. ABBOTT: I think I can.

Hon. Mr. VIEN: It was announced?

Hon. Mr. ABBOTT: Yes. I am advised it is in the Commons Hansard for the 1945 session.

Hon. Mr. VIEN: While the minister was out a minute ago I put a question to Mr. Towers, and he said he would prefer that the minister should give the answer. My question was this: In what particular would the continuation of the provisions of the foreign exchange order, if it were continued say for a period of two years, be embarrassing or insufficient for the purposes of the government?

Hon. Mr. ABBOTT: It would not be embarrassing or insufficient, senator. The measure under which the present foreign exchange control order exists is the War Measures Act, now the National Emergency Transitional Powers Act. That act, presumably, will lapse 60 days after the commencement of the next session, or about the end of March. If it lapses the present foreign exchange control order would lapse with it. As I stated this morning, I think when we were discussing this question, the government has had to review various measures dealt with by order in council under that extraordinary measure, and has had to decide which of those powers must be put in statutory form. This is one of the measures which the government decided would most certainly have to continue beyond the 31st of March next, and it was therefore decided to introduce it this session at as early a date as possible. Had pressure of parliamentary business permitted, it would have been introduced in the session of 1945. It is evident, I think, that there will be a very substantial volume of that work which will have to be introduced in the first days of next session; but in an endeavour to get some things behind us, things, as I said this morning, that we need, we decided we had better try to get on with them now. That is the reason which prompted the introduction of this bill.

Hon. Mr. VIEN: This is what I had in mind. Instead of this very elaborate legislation, which it is very difficult for us to study in detail and to appreciate in all its implications, it would be better to have a short bill to this effect: The provisions of the foreign exchange control order and the powers of the government to amend them from time to time are continued for a period of two years. Such a piece of legislation would guarantee to the government all the powers that it has now in respect to this matter.

Hon. Mr. ABBOTT: That would certainly be a simple way of handling it, Senator. However, I do not believe it would give parliament the power of inquiry which is given in the present bill, under which the government would have to come before parliament each year for an appropriation for the expenses of the board. And it would lack the rather elaborate provisions contained in the bill with respect to publicity as to the operations of the board, the reports which have to be filed, and the like. That is my personal opinion. While the bill may appear complicated, it in large measure introduces the provisions of the foreign exchange control order as it now exists, with a number of relaxations of those provisions, and with added provisions such as I have mentioned.

Hon. Mr. VIEN: What I have suggested could be regarded at least as a ceiling on the powers of the government to regulate foreign exchange for a period somewhat similar to what it has under the foreign exchange control order; but there is a definite reluctance to grant by way of legislation powers that are definite and permanent.

Hon. Mr. ABBOTT: That reluctance might be overcome by a time limit such as was discussed this morning. It would seem to me we could accomplish the same purpose as you have in mind by passing a blanket act confirming the regulations now in existence and empowering the government to continue the control as it sees fit under the very broad powers of the War Measures Act and the National Emergency Transitional Powers Act. However, I can only say that this bill represents carefully considered government policy. Of course, the members of the Senate must accept their responsibility in this regard and do what they feel is proper in the interests of the people of this country.

Hon. Mr. VIEN: Personally, I would be in a better position to express an opinion on that particular point when we have the memorandum that Mr. Towers has promised to give us. I understand that it sets out clearly what are the differences between the control under the order and the control under this bill.

There is another question I should like to ask the minister. I understand a committee is to sit in Washington composed of representatives of Canada, the United States and the United Kingdom to implement the provisions of the loan agreements, and to discuss our trade relationships. Has anything been done in that direction?

Hon. Mr. ABBOTT: That may well be, Senator. I am not familiar with the arrangement, but I can make inquiries and find out.

Hon. Mr. VIEN: I want to find out if and when those representatives will meet in Washington.

The CHAIRMAN: Senator Buchanan?

Hon. Mr. BUCHANAN: My questions, Mr. Chairman, may be a repetition of some of the questions put by Senator Vien. My first question relates to this part of the preamble:—

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

Does our membership in the International Monetary Fund require us to pass legislation of this kind?

Mr. TOWERS: It requires us so long as we are a member of the Fund to maintain suitable exchange rates, and only to change them—to use the phraseology of the fund—in the event of a fundamental disequilibrium. I suggested earlier, as a personal opinion, that it would be very difficult for us to accept the commitments and maintain the stability of exchange rates in the present and prospective unsettled state of the world if we freely permitted the export of capital.

Hon. Mr. MCGEER: Would you mind giving us the references to those sections?

The CHAIRMAN: May I remind you, Senator McGeer, that we have not yet disposed of Senator Buchanan's questions.

Hon. Mr. VIEN: Page 20, section 4.

Hon. Mr. BUCHANAN: My other question relates to an organization with which I am associated. We have a contract covering a period of years with an organization in the United States. Under that agreement we receive from them certain services, which we pay for in American funds. Would we be required to have a permit to make our payments?

Mr. TOWERS: The debtor in Canada when purchasing the funds would presumably advise the bank here that the money was in fulfilment of the obligation that you mention.

Hon. Mr. BUCHANAN: But they make their payments on a monthly basis. Would they have to have a permit each month?

Mr. TOWERS: I doubt whether there would have to be a form filled out in each case except for the bank itself.

Hon. Mr. BUCHANAN: Those are all the questions I have.

The CHAIRMAN: Senator Robertson?

Hon. Mr. ROBERTSON: I should just like to ask Mr. Towers one question. I am in a little different position from that of the other members of the committee. As a member of the government I shall be called upon from time to time with other members of the government to pass on the regulations and so on, and of course shall have the freedom to exercise my judgment in respect to them. I think the point was first raised by Senator Crerar, but after all there are a great number of things which come up from time to time and it is not possible for an individual to go over them all. I should like to ask you, Mr. Towers, as Chairman of the board, this question: Is the spirit and the letter of this legislation designed definitely to maintain and increase the flow of international trade?

Mr. TOWERS: I would unhesitatingly say yes to that question.

Hon. Mr. ROBERTSON: I have no further questions.

Hon. Mr. BENCH: That question and answer usurps the function of this committee. It is a question that the committee should decide.

Hon. Mr. ROBERTSON: I was merely expressing my own opinion.

Mr. TOWERS: And I am expressing my opinion.

The Committee adjourned until Wednesday, August 21, at 10.30 a.m.

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, Wednesday, August 21, 1946.

The Standing Committee on Banking and Commerce, to whom was referred Bill 195, an Act respecting the control of the acquisition and disposition of foreign currency and the control of transactions involving foreign currency or non-residents, met this day at 10.30 a.m.

Hon. Mr. BEAUREGARD in the chair.

The CHAIRMAN: Honourable members, I understand that Mr. Towers has a memorandum containing information requested yesterday by Senator Vien. Senator Vien is not here at the moment, but perhaps we should ask Mr. Towers to read the memorandum.

Mr. TOWERS: Mr. Chairman, Senator Vien asked for a memorandum indicating the differences between the powers now possessed by the board and those proposed in this bill. I have here a memorandum on restrictions on powers exercisable under the foreign exchange control bill as compared with the present orders in council. The memorandum reads as follows:—

Section 5(2) (*c*): Limits Exchange Fund's holdings of foreign currencies other than United States currency to amounts authorized by Governor in Council. Annual publication required under section 5(4). No limitation on amounts or requirements as to publication at present.

Section 7(2): Annual publication of advances to Exchange Fund Account required. No such requirements at present.

Section 8: Requires annual earnings of Exchange Fund to be paid to Consolidated Revenue Fund. At present earnings may be retained in Exchange Fund.

Section 13: Requires annual appropriation by Parliament for costs of administration. At present all expenses may be paid out of Exchange Fund Account.

Section 17: Authorized dealers' remuneration prescribed by Governor in Council. At present Board has power to prescribe.

Section 18: Authorizes Governor in Council to prescribe rates of exchange. At present, rates are established on instructions of Minister of Finance.

Section 25(2): Prohibits Board from withholding permit for export of goods where fair value to be received within six months in appropriate currency. No such limitation at present.

Section 26(2): Prohibits Board from withholding permit for import of goods where payment not to exceed value and in appropriate currency. No such limitation at present.

Section 30: Governor in Council may require residents to declare foreign securities. In original Foreign Exchange Control Order residents were required to declare foreign securities held as of September 15, 1939, and persons becoming residents thereafter are at present required to make similar declarations.

In addition, at present Board has power to requisition foreign securities held by residents. No similar power in Bill.

Section 35(3): Regulations of Board become effective only after approval by Governor in Council and publication in *Canada Gazette*. At present approval by Governor in Council is not required.

Section 36(1) (*d*): Board may issue instructions only to authorized dealers and agents. At present instructions may be issued to any person and have the same force as regulations with respect to any person having notice of them.

Section 37(2): With certain exceptions where appeal to a court is provided, appeal as of right from determination, decision or ruling of Board may be made to Minister of Finance. At present such appeals require permission of Board.

Section 38: Provides appeal to Exchequer Court from determination of fair value by Board. At present no appeal except to Minister.

Section 39: Board required to make annual report to Minister, which latter must publish in *Canada Gazette* and table in Parliament. No such requirement at present.

Section 41(1): Only inspectors designated for the purpose may conduct inquiries under the section. At present any inspector appointed by Board may do so.

Section 41(4): Provisions of Canada Evidence Act, except those relating to compellability of banks to produce records, apply to inquiries under the section. At present any information given by a person on an inquiry may be used as evidence against him in a prosecution.

Section 41(6): Entitles a person who is examined in an inquiry to be represented by counsel. No such right at present.

Section 41(8): No person may be arrested for offence under section 41 without a warrant. At present no warrant required.

Section 42(4): Books or records seized by inspector must be returned within 90 days unless court proceedings commenced. No limit at present.

Section 44(1): Approval of judge is required for entry and search of premises. At present Board or inspector may order search and detain persons or property.

Section 45: Confines arrest without warrant to indictable offences which under section 60 are those involving property having a value exceeding $1,000. At present arrest without warrant may be made for any offence.

Section 54: Limits liability of officers and agents of Board for acts done or omitted in the performance of their duties only where judge certifies they acted in probable cause or acted in good faith in carrying out instructions of Board. At present there is no right of action against such officers or agents for acts or omissions which he believed in good faith to have been required.

Section 60: Allows prosecution on indictment only for offences involving property of a value exceeding $1,000. At present any offence may be prosecuted on indictment.

Section 62(6): Board is required at request of owner or claimant of currency seized as forfeited under this section to refer matter to court. At present such reference is discretionary with the Board.

Section 64(1): Limits commencement of forfeiture proceedings to 3 years from time cause of action arose. No limit at present.

Section 64(2): Limits detention of property seized and liable to forfeiture to 6 months unless proceedings commenced. No limit at present.

Section 64(3): : Permits release of property seized upon deposit of value in money. No such authority at present.

I have a memorandum on the new powers which I will now read:—

Section 5(2) (*b*): Permits moneys in Exchange Fund to be invested in any treasury bills or other obligations of the United States. At present the Exchange Fund Act limits such investments to those maturing in three months from acquisition.

Section 32: Contains general requirement with respect to services rendered by residents for non-residents. Similar section in Foreign Exchange Order exempts services performed in Canada for non-resident tourists. The intention is to cover this exemption by regulation under the Act.

I may say that in the drafting of the bill it was thought specific exports of that kind should be dealt with by regulation rather than in the act itself. This was a suggestion of the Department of Justice.

Section 34: Authorizes Board to require transfer to Canada of income or earnings of foreign subsidiaries of Canadian companies. No similar provision at present although Board now has powers, not contained in Bill, to requisition foreign securities.

Section 36(1) (*c*) (iii): Subject to appeal to Exchequer Court, authorizes Board to determine fair value. At present such authority is limited to transactions between related companies.

Yesterday in speaking of that fair value section I indicated that there was no intention of questioning values unless the board had reason to believe that there was a relationship between the two parties to the transaction. Certainly if it was thought that the section would be improved by restricting the power to determine fair value to dealings between related companies, that would not interfere with the administration and would in fact express the intention.

Section 60: Provides maximum fines for offences relating to property up to double the value of the property involved. At present maximum fine is $5,000.

The CHAIRMAN: We may proceed now with cross-examination of the witness.

Hon. Mr. ROBERTSON: Mr. Chairman, at this stage I would like to ask a question on behalf of several senators who have requested me to do so. There has been a suggestion that the Foreign Exchange Control Board is contemplating the erection of a large building to house a very considerable staff; and this would seem to indicate two things: large operations by the board and more permanence than at least the members of the senate hope the board will have. I would like to know what the chairman of the board has to say in respect of that.

Mr. Towers: I may say the Foreign Exchange Control Board is not contemplating any building. The Bank of Canada is planning, when materials become more readily available, to build an extension to its building in order to bring back to the central point our staff who are now in a building on King Edward Avenue, and we will then sell the King Edward Avenue building. At the same time as we put up this addition it will be possible to house the staff of the Foreign Exchange Control Board, who in Ottawa number some 170, which total includes a fair number of Bank of Canada staff loaned to the board for the work they are now doing.

Hon. Mr. Euler: Are you making the building larger with that in mind?

Mr. Towers: No. When we build this extension we would have to leave some space for the future. We hope this is the last building to be put up; and I would say that as and when the Foreign Exchange Control staff is reduced, that will give us room for expansion elsewhere.

Hon. Mr. Robertson: Has that staff been reduced from its peak?

Mr. Towers: Its peak was 558, altogether through Canada. It is now a few over 200.

Hon. Mr. Moraud: How many employees of the Bank of Canada are on loan to the Foreign Exchange Control Board just now?

Mr. Towers: At the end of 1945, fifty-six.

Hon. Mr. Moraud: Out of one hundred and seventy?

Mr. Towers: Yes.

The Chairman: Let us come now to the main question, the bill itself. I will call on Senator McGeer. Have you any questions to ask, Senator?

Hon. Mr. McGeer: Mr. Towers, we meet again.

Some Hon. Senators: Oh! oh!

Hon. Mr. McGeer: You have the report of the Foreign Exchange Control Board for 1946?

Mr. Towers: Yes.

Hon. Mr. McGeer: Who prepared that?

Mr. Towers: Various people on the staff of the Board, and I made a few contributions myself.

Hon. Mr. McGeer: You are conversant with the contents, of course?

Mr. Towers: Yes.

Hon. Mr. McGeer: You have been acting in the Foreign Exchange Control Board during the war as chairman, have you?

Mr. Towers: Yes.

Hon. Mr. McGeer: What is Mr. Rasminsky's association with the Board?

Mr. Towers: He is alternate chairman. We divide up; I should say his proportion of time is higher than mine.

Hon. Mr. McGeer: But you have maintained contact with the Board?

Mr. Towers: Constantly.

Hon. Mr. McGeer: Will you please turn to page 39. That is your first year of operations. I notice that you had a total turn-over of $16,000,000 odd.

Mr. Towers: That is the profit on turn-over.

Hon. Mr. McGeer: How much would the turn-over be?

Mr. Towers: The figures which I have here do not cover the period between September 16, 1939, to the end of December, but if I may refer to the 1940 figures, the purchases of United States dollars were $731,000,000, and the sales were $1,054,000,000.

Hon. Mr. McGEER: We will leave out sales, because your profits in the turn-over of exchange were $17,000,000 net?

Mr. TOWERS: $17,000,000 for 1940.

Hon. Mr. McGEER: We will just follow through on page 39. This was your revenue: From turn-over on foreign exchange $16,000,000 odd; from transactions in gold, $432,000 odd; from earnings on investments and foreign balances $175,000 odd, making your total profit $16,650,000 odd.

Mr. TOWERS: Yes.

Hon. Mr. McGEER: You paid out of that, commissions on purchases and sales of foreign exchange $4,223,000 odd.

Mr. TOWERS: Yes.

Hon. Mr. McGEER: Who were those paid to?

Mr. TOWERS: The chartered banks.

Hon. Mr. McGEER: And you paid interest on loans from the Dominion government of $2,000,000 odd?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: Have you the rate of interest you paid on those loans?

Mr. TOWERS: Yes, one per cent.

Hon. Mr. McGEER: And your general operating costs were $1,500,000 odd?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: So your net profit was $8,915,000 odd.

Mr. TOWERS: Yes.

Hon. Mr. McGEER: Now, that $16,000,000 odd was a direct levy on the foreign exchange transactions of Canada was it not?

Mr. TOWERS: I should not call it that. I would call it a charge for performing a certain service.

Hon. Mr. McGEER: Do you think it was necessary at that time to impose such a charge? That after paying off these commissions of more than $4,000,000, and interest to the government of $2,000,000, and operating costs of $1,503,000 you had a profit of $8,900,000?

Mr. TOWERS: I would not describe that as profit, but as something to build up a reserve against a very serious risk of change in the rate—a risk, of course, which has since materialized, so the so-called profit has in fact disappeared.

Hon. Mr. McGEER: What you did on the operations show a net profit of $8,900,000.

Mr. TOWERS: They show an amount available for reserve.

Hon. Mr. McGEER: But that was over and above the cost of your operations?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: So if it was not a tax on the people generally—as I suggest it was—we are that much better off, because that will be available to be held as a reserve, or go into the consolidated revenue fund?

Mr. TOWERS: To go into the consolidated revenue fund?

Hon. Mr. McGEER: The national consolidated revenue fund. If you accumulated a surplus which you did not need where would it go to? Would it not go to the government?

Mr. TOWERS: Under the provisions of the act it goes to a reserve account, but of course the provisions could have been changed and the amount paid into the government.

Hon. Mr. McGEER: Just the same as the operations of the Bank of Canada?

Mr. Towers: That could have been done, but in fact the legislation provided that any surplus over operating expenses should be put to reserve account.

Hon. Mr. McGeer: In 1941 your profit was $9,265,000 odd?

Mr. Towers: The amount available for reserve, yes.

Hon. Mr. McGeer: And you paid in commissions $3,893,000, in round figures?

Mr. Towers: Yes.

Hon. Mr. McGeer: And the interest paid the government rose to $4,974,000.

Mr. Towers: Yes, because the holdings of foreign exchange required more financing from the government.

Hon. Mr. McGeer: Can you tell me what the money cost the government in 1940 and in 1941?

Mr. Towers: It is impossible to say what the particular financing cost the government unless one could identify the securities which were sold to provide the government with funds. But I may say that the rate which has been paid by the Board on loans from the Dominion government have approximated the rates paid by the government on deposit certificates.

Hon. Mr. McGeer: What was the rate of interest paid in 1940?

Mr. Towers: That was still one per cent. I have a memorandum here, Senator McGeer, in reply to your question of the other day. The rate was one per cent from the time the government first commenced making advances to April 30, 1945; then it was reduced to three-quarters of one per cent, which applied up to May 1st, 1946; since that time it has been five-eighths of one per cent. That is, five-eighths of one per cent is the present rate paid by the government on deposit certificates.

Hon. Mr. McGeer: In 1941 from your turn-over on foreign exchange you had $16,256,000 in round figures, and your other revenue was from these other sources: transactions in gold, $8,500; earnings on investments and foreign balances, $3,227,000; profit on sale of investments, $3,900. This gave you a total revenue of $19,496,000. You paid out in commissions $3,893,000; interest on loans, from the Dominion government, $4,974,000; cost of coin shipments, $10,000; general operating expenses, $1,352,000. You had a profit that year of $9,265,000.

Mr. Towers: I am sorry to be so technical—

Hon. Mr. McGeer: We won't quarrel with that; it was dealt with by Mr. Rasminsky as revenue profit when he appeared before the Commons Banking and Commerce Committee. Now, let us deal with 1942. This was your revenue: turn-over on foreign exchange, $17,147,000—from transactions in gold, you lost $65,000. How did that happen?

Mr. Towers: To be absolutely accurate, I ought to get a memorandum on that. We held the gold on our books at the New York price, less handling commission—which has to be paid there—less shipping charges based on shipments of moderate size. We bought a substantial amount of gold, as I recall, in that year at a slightly higher figure. What I am driving at is that this was a book loss, which was more than recovered in the following year when the gold was shipped. You will see that in 1943, the profit on our transactions in gold was $263,000. The two years should be lumped together.

Hon. Mr. McGeer: You lost $65,000 on gold transactions.

Mr. Towers: We did not lose it. It was a bookkeeping loss which was reversed in the following year.

Hon. Mr. McGeer: It is shown here as a loss.

Mr. Towers: A bookkeeping loss.

Hon. Mr. McGEER: But your explanation is that it was in shipping charges?

Mr. TOWERS: I have the detailed explanation here. In December, 1942, the United Kingdom sold an amount of gold to the Board to place itself in Canadian dollars to meet its requirements. This transaction, as with other exchange transactions between the Board and the Bank of England, was entered into at the made rate of exchange for United States dollars, namely, ten and a half per cent premium. The price at which gold is carried on the books of the exchange fund was based on the buying rate for United States funds, namely, ten per cent. The loss on gold transactions in 1942 was due to the writing down of the gold bought from the United Kingdom to the price at which gold is carried in the exchange fund account. In January, 1943, other methods were arranged for the financing of the United Kingdom requirements of Canadian dollars, as part of which the gold was resold to the United Kingdom at the made rate of exchange, resulting in the recovery of the book loss incurred in December, 1942.

Hon. Mr. McGEER: As a matter of fact you bought gold from the United Kingdom and then resold it for American dollars?

Mr. TOWERS: For American dollars.

Hon. Mr. McGEER: Why were you buying gold at that time?

Mr. TOWERS: They needed Canadian dollars in connection with their purchases here.

Hon. Mr. McGEER: That is the United Kingdom?

Mr. TOWERS: The United Kingdom.

Hon. Mr. McGEER: You then sold that gold back to the United Kingdom for American dollars?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: During that time were you selling gold to the United States right along? What were the gold reserves you had at that time?

Mr. TOWERS: Apparently the figures are not available; I shall have to get them.

Hon. Mr. McGEER: Would you get the figures?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: Why are the figures of the amount of gold and U.S. dollars not kept separate?

Mr. TOWERS: They are separate, but I have not got them here.

Hon. Mr. McGEER: Why are they not presented to parliament as so much gold and so much U.S. dollars?

Mr. TOWERS: We regard the sum total as our effective reserve. If there is any interest in having gold separate from U.S. dollars it can be separated.

Hon. Mr. McGEER: The difference is that Canada is a gold producer but it does not produce U.S. dollars.

Mr. TOWERS: In the balance sheet of December 31, 1945, which you will find on page 45 of the report, gold is shown separately. The amount at that time was approximately $388,000,000.

Hon. Mr. McGEER: That is for just one year.

Mr. TOWERS: For one year.

Hon. Mr. McGEER: The excess of revenue over expenditure transferred to the reserve fund was $9,200,000 in 1942?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: You took $17,000,000 out of the turnover on foreign exchange, plus $65,000 in gold, and from earnings on certain investments $3,000,000; plus the profit on the sale of investments of $650,000, making a total of $20,000,000. You expended commissions to the chartered banks of $4,000,000, interest on the loans $3,000,000; the cost of temporary financing with the bank was $387,000, and interest paid on retirement fund $1,200. What is the retirement fund?

Mr. TOWERS: That is the fund similar to that which is maintained for those who are not under the superannuation fund. You will recall that particularly during the war temporary civil servants were required by reductions in salary to put something into a retirement fund and the government paid interest on that in the case of civil servants. We followed the same policy in the bank.

Hon. Mr. MCGEER: That would indicate that as far back as 1942 there was some permanency to this institution?

Mr. TOWERS: On the contrary, that was the provision which the government introduced particularly for temporary wartime employees.

Hon. Mr. MCGEER: The report shows the cost of coin shipments at $11,000 and general operating cost of one million. How do you explain the differences in operating costs which are for the year ending December 31, 1940, $1,503,000, for the year ending December 31, 1941, $1,352,000 and for the year ending December 31, 1942, the cost had dropped to $1,098,000?

Mr. TOWERS: The figures on page 46 of the report show the operating costs in detail. The board, after having reached the peak with a staff of nearly 500 in the early part of 1940 was able by simplified procedure and increased experience to reduce the number required.

Hon. Mr. MCGEER: In 1939 you had only 355 employees and in 1940 you had 549.

Mr. TOWERS: That is right.

Hon. Mr. MCGEER: How do you explain that situation?

Mr. TOWERS: I would explain it by the fact that up to the end of December, 1939, and into the early days of 1940 we were in the process of putting together an organization which had consisted of no one as of September 13, 1939, and the staff in general was working until one, two, three and four o'clock in the morning, five nights a week. Had we not been able to get additional staff our employees would have broken down.

Hon. Mr. MCGEER: And did you pay them overtime?

Mr. TOWERS: No.

Hon. Mr. MCGEER: Then that did not account for your high operating cost of $1,500,000?

Mr. TOWERS: The number of staff accounted for it in large measure.

Hon. Mr. MCGEER: But you had fewer employees in 1940 than you had in 1939?

Mr. TOWERS: No; on the contrary, we had more.

Hon. Mr. MCGEER: As I read the figures in 1939 you had 100 male and 255 female employees, making a total of 355; in 1940 you had 224 males, 325 females, with a total of 549.

Mr. TOWERS: Yes, we had more employees in 1940 than in 1939.

Hon. Mr. MCGEER: Yes your operating costs in 1939 were $1,500,000 and in 1941 were $1,300,000.

Mr. TOWERS: I see now where the mistake arises. The statement for 1939 covers the period from September 15 of that year to December 31, 1940; whereas the figures on page 46 in the first column separates the figures for the few months of 1939 and the whole of 1940.

Hon. Mr. MCGEER: What do you say that indicates?

Mr. TOWERS: That means that the report covers a period of fifteen and a half months, while the detail figures separate the costs for the calendar year of 1940.

Hon. Mr. McGEER: Your turnover for the year 1943 on foreign exchange was $18,000,000, from transactions in gold $263,000 and your earnings on investments was $807,000, showing a total revenue of $19,000,000. In that same year your commissions paid amounted to $4,805,000; the interest paid the government was $4,000,000 and the cost of temporary financing was $71; the interest on retirement fund was $1,200.

Hon. Mr. HAIG: Mr. Chairman, I do not like to interrupt anyone but this is developing into an investigation of the business of the board for the last five or six years. It may be very profitable and reasonable, but I do not think it has anything to do with the bill. Our reference is to inquire into the principles underlying the bill. I am quite satisfied to have the whole business of the foreign exchange referred to any committee which wants to deal with it, and I am quite willing if Senator McGeer should ask any questions he wishes in the house. He has the right to ask any questions about the bill or the principle underlying it. I really think we ought to stick to the bill and the question referred to us.

The CHAIRMAN: I agree with you, Senator Haig, that this lengthy procedure may not strictly relate to the bill, but, on the other hand, I know of no hard and fast rule to govern procedure in committees. For the time being I would permit Senator McGeer to continue.

Hon. Mr. McGEER: Mr. Chairman, I suggest that there are several principles involved in the bill and that the subject matter is not merely shall there or shall there not be exchange control, but shall those controls, whatever they may be, be exercised by the board designated in this bill.

The CHAIRMAN: I have given my ruling for the time being, and I ask you to proceed.

Hon. Mr. McGEER: When the bill was before the Committee on Banking and Commerce in the other place this general situation of the operation of the board was very fully discussed, was it not?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: As I remember it, the net proceeds from the Foreign Exchange Control Board operations totalled, for the period up to end of 1945, the sum of $90,000,000.

Mr. TOWERS: Do you mean the accumulation of the excess of revenue over expenditures?

Hon. Mr. McGEER: No, I mean the total recovery from the various items that you set up.

Mr. TOWERS: Then you mean the gross earnings?

Hon. Mr. McGEER: Yes, the gross earnings.

Mr. TOWERS: I would have to figure it out from the various statements here. I should think however the gross earnings would be about $109,000,000.

Hon. Mr. McGEER: May I just run over the figures for you; $18,000,000, $16,000,000, $14,000,000, $16,000,000, $16,000,000, $17,000,000, a total of $98,000,000.

Mr. TOWERS: I think the gross earnings during those years amounted to about $109,000,000, with interest and expenses paid amounting to about $60,000,000, leaving an excess of revenue over expenditures of $49,000,000 for the period of control up to December 31, 1945. That figure $49,000,000 appears on page 45 of the report under the heading of Reserve Fund.

Hon. Mr. McGeer: The profits amounted to $98,000,000.

Mr. Towers: And I think the gross earnings were $109,000,000.

Hon. Mr. McGeer: Your excess of earnings over operating expenses were how much?

Mr. Towers: For the full period, $49,000,000.

Hon. Mr. McGeer: Do you think that it was necessary to impose the levy on the foreign exchange transactions to accumulate that amount of money?

Mr. Towers: The rates for buying and selling were set by the Minister of Finance, no doubt after consultation with his colleagues, and therefore represent a matter of government policy.

Hon. Mr. McGeer: Are you not a colleague and adviser of the Minister of Finance on financial matters?

Mr. Towers: I would not set myself up as a colleague.

Hon. Mr. McGeer: There may be a difference of opinion on that; it is a question of whether you are above or below.

Mr. Towers: I know the answer to that: It is down rather than up. I am one of his various advisers.

Hon. Mr. McGeer: And I would say on matters concerning international exchange and banking transactions you would be the top flight adviser.

Mr. Towers: No, no. He has various advisers, and he makes up his own mind, after consultation with his colleagues.

Hon. Mr. McGeer: I thought you were the man on foreign exchange Who are his financial advisers in addition to yourself?

Mr. Towers: He has many others.

Hon. Mr. McGeer: Who, that you know of? You say there are many others, so you must know.

Mr. Towers: On the staff of his department.

Hon. Mr. McGeer: We might want to examine them.

Mr. Towers: I think it is hardly necessary for me to say, because it is well known who the deputy minister and certain others of his staff are.

Hon. Mr. McGeer: You say they were responsible for fixing the rates?

Mr. Towers: No.

Hon. Mr. McGeer: That is not what you want this committee to believe?

Mr. Towers: No, I say that the Minister of Finance and the government determined the rate.

Hon. Mr. McGeer: The government with which you are associated as an adviser, and an employee of, fixes the rate?

Mr. Towers: The government fixes the rate, and the exchange board administers its operation.

Hon. Mr. McGeer: As administrator of the government's rates, as chairman of the Foreign Exchange Control Board, do you believe that it was necessary to impose a rate that exceeded that volume of profit from our international exchange operations?

Mr. Towers: I think I must still answer, Senator McGeer, that that is a matter of government policy, and if there is objection to it there are appropriate ways and means of signifying that objection to government. In the board we must carry out that policy as it is set down.

Hon. Mr. McGeer: You will agree that every dollar imposed upon exchange transactions is a levy on international business?

Mr. TOWERS: The costs of foreign exchange transactions are part of the cost of doing business, whether or not there is foreign exchange control. At times when exchange is completely stable the margin between buying and selling rates, particularly on large transactions, would of course be less than 1 per cent. At times when exchange is fluctuating all over the place the cost to exporters and importers may very well be in excess of 1 per cent. The question raised, as I understand it, is whether the 1 per cent was unnecessarily high—Was it too high a price to pay for stability? Was it wrong to build up reserves against possible losses? Those are questions which are matters of opinion and which relate to government policy. In fact, of course, at the time of revaluation on July 6 a writing-down was necessary. If the $49,000,000 had not been there the net loss would have been just that much greater.

Hon. Mr. McGEER: I am coming to that. That is all the answer you want to give me on whether or not you think this was a proper rate?

Mr. TOWERS: That was a matter of government policy.

Hon. Mr. McGEER: As a matter of fact a great many of these transactions during that period were transactions which were part of our wartime production? There were a great many international transactions of people getting equipment and facilities across the line from the other side, on which this 1 per cent was imposed?

Mr. TOWERS: They paid 11 per cent.

Hon. Mr. McGEER: And that profit went to our chartered banks?

Mr. TOWERS: What profit?

Hon. Mr. McGEER: The 1 per cent.

Mr. TOWERS: No. The amount paid to them is shown here. That rate which they were paid was for some time one-eighth of 1 per cent on their purchases or sales of foreign exchange. Later on that rate was reduced to three-thirty-seconds of 1 per cent.

Hon. Mr. McGEER: Didn't they have power to handle cash? Didn't they handle American cash themselves?

Mr. TOWERS: On their till money transactions, that is actual U.S. currency which they held to be available for customers who were going down to the United States, on that portion of the business, which is small, they received the full spread; and of course they were taking the exchange risk on those holdings, and on July 6 suffered a loss of 10 per cent on what they held.

Hon. Mr. McGEER: So that the situation was this. Everybody who came into possession of American funds in this country, with the exception of the chartered banks, had to deliver it to the Foreign Exchange Control Board or its agents?

Mr. TOWERS: No exception to the chartered banks. They delivered to the Foreign Exchange Control Board all the exchange which they purchased.

Hon. Mr. McGEER: Then how did they have money in their tills on which they were running the risk?

Mr. TOWERS: With the exception of a few million dollars scattered between the banks in the form of actual U.S. currency.

Hon. Mr. McGEER: You see, your total profits were $49,000,000, and the total commissions paid to the chartered banks were $25,000,000?

Mr. TOWERS: About that, yes.

Hon. Mr. McGEER: It was not small business from the banks' point of view.

Mr. TOWERS: They did an enormous volume of work.

Hon. Mr. McGEER: In any event, you paid the banks $25,000,000 during that time?

Mr. TOWERS: At the rate, first of all, of one-eighth of one per cent on the transactions, and later, three-thirty-seconds.

Hon. Mr. McGEER: You make that general statement. Could you get me the actual figure of the amount paid to the banks and the rate of commission paid each year?

Mr. TOWERS: Yes, I can give you that rate of commission. The amount paid to the banks is of course set forth in these various statements. They were paid one-eighth of one per cent on purchases and sales of exchange from the start of the control up to November 1, 1945. Since that date the rate has been three-thirty-seconds of one per cent.

Hon. Mr. McGEER: I am going to suggest to you that on those transactions on which you paid $25,000,000, all that the banks did was purchase U.S. dollars and hand them over to you or take them on deposit and hand them over to you.

Mr. TOWERS: They purchase U.S. dollars from their customers and hand them over to us, they sell U.S. dollars for their customers and hand them over to us, and in the process they have a tremendous volume of work to do.

Hon. Mr. McGEER: In connection with that business?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: How?

Mr. TOWERS: They, for example, see to the making out of the statements showing the purposes for which exchange is bought or sold. They receive the forms which enable them to match sales of foreign exchange against import declarations. I could, if you like work out a memo which would recite at a very considerable length the details of all the work which they did. They are the ones who do most of the accounting work in connection with foreign exchange control.

Hon. Mr. McGEER: When a customer goes into a bank to get foreign exchange, the ordinary traveller who gets till money, that does not give work to the bank at all. That money comes out of the bank's till. That is part of the few million dollars that they have available all the time?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: And on that they get one per cent?

Mr. TOWERS: That is right. And they have the expense of shipping the currency backwards and forwards, and the exchange risk of holding it.

Hon. Mr. McGEER: On the whole, judging from these figures, looking at it from a profit and loss point of view, the operations of the Foreign Exchange Control Board have been highly satisfactory.

Mr. TOWERS: I do not regard that $49,000,000 as a profit, and it has not turned out to be. I think we have done the best we could; that is about all we can say.

Hon. Mr. McGEER: As a matter of fact, the net result of the operations to date is a loss of about $90,000,000, is it not?

Mr. TOWERS: No. The figures in regard to the situation as of July 6 have not been disclosed. I think if those figures are desired that question should be addressed to the minister. I should imagine that if the committee were keen to receive them the minister would be glad to produce them, but he is the one who should do it.

Hon. Mr. McGEER: You say they have not been disclosed?

Mr. TOWERS: No.

Hon. Mr. McGEER: Well, if you will look at the figures—

Mr. TOWERS: When the matter was under discussion in the other committee an estimate was made on what the book loss would have been, based on the foreign exchange and gold holdings as of December 31 last, which I may say would very closely approximate the actual loss as of July 6.

Hon. Mr. McGeer: I think that was the general assumption of the committee in the other place. Let us take a look at those figures. Before I come to them, may I ask: is there any reason why parliament and the people of Canada should not know the actual situation as it existed following the change in the exchange rate?

Mr. Towers: Naturally when the next board statement is published those figures will be given. I think that the minister took the view that as giving the actual figures of July 6 would disclose the position of the board at that time in respect of its foreign exchange holdings, and as it is desirable that those holdings should only be held after a certain time lag, that it would be better to delay the publication of the July 6 figures for a time. On the other hand, if there is a keen desire or a feeling that it is necessary to have them at this time, I think that point should be put up to the minister.

Hon. Mr. McGeer: It depends on what the committee wishes, but if I were a member of this committee I certainly would want to know all about it. I would like to have the information and I think the people of Canada are entitled to the information; and certainly parliament is. However, let us deal with it as far as we can, because we have got some of the information disclosed as to what the situation was on the 6th of July. If I have checked the figures rightly your losses on gold were $35,000,000.

Mr. Towers: On the revaluation.

Hon. Mr. McGeer: Your gold was worth 10 per cent less?

Mr. Towers: The value of the gold was written down by 10 per cent, or $35,000,000.

Hon. Mr. McGeer: And that was not the only loss taken. A loss swept throughout the whole gold mining industry of Canada, did it not?

Mr. Towers: Again we are on the question of very major policy, Senator McGeer, that is the change in the exchange rate, and I cannot express any opinion on that.

Hon. Mr. McGeer: I suppose the members of the committee know of the sweeping nature of that disastrous loss to the gold mining area in western Quebec. Certainly the members of the Senate know it, because it was brought out at an exhaustive inquiry by a Senate committee. I was on that committee, and it recommended that something should be done to help the gold mining producers, particularly in western Quebec, northern Ontario and British Columbia. Now, this loss swept all the way through the gold mining area.

The Chairman: Senator McGeer, in order that we may save time I must ask you not to indulge in any speech. Secondly, I would like to suggest that you follow as closely as possible the four points which it was decided by the committee, right at the start, that we should consider: (1) the need for control; (2) the need for action at this session; (3) the desirability of this form of control rather than other; and (4) the time limit, if any.

Hon. Mr. McGeer: I am dealing with the form of control. The question is whether the control should be given to the board or whether some other form of control should be set up. My whole objection to this programme, as you know from my speech in the Senate, is based on handing this power over to a board, which I say on its operations has shown a loss of $90,000,000.

The Chairman: I do not want to invite you to make a speech.

Hon. Mr. McGeer: We come then, Mr. Towers, to your net loss on U.S. dollars, $92,200,000. Now, what does that mean?

Mr. TOWERS: That means that the board was holding on its books approximately $920,000,000 U.S. dollars, which it valued at 10 per cent premium. Writing those dollars down to par involved a write-down of $90,000,000.

Hon. Mr. MCGEER: You say "holding on its books". Did you have the dollars in your possession?

Mr. TOWERS: Yes, we owned $920,000,000 in U.S. dollars.

Hon. Mr. MCGEER: Those were not re-invested?

Mr. TOWERS: They were mostly invested in United States treasury bills.

Hon. Mr. MCGEER: Did you get a profit on that?

Mr. TOWERS: We got the earnings on that which are shown in the statements from year to year.

Hon. Mr. MCGEER: What were your earnings on those?

Mr. TOWERS: In 1945 the earnings on investments of foreign balances was $2,655,000. That was practically entirely from United States treasury bills.

Hon. Mr. MCGEER: How much of that $920,000,000 did you have in cash and how much in investments?

Mr. TOWERS: We can pick it out in a moment. All we retained in cash is what you might call a reasonable working balance.

Hon. Mr. MCGEER: And you lost $750,000 on sterling?

Mr. TOWERS: Yes.

Hon. Mr. MCGEER: That made your total losses $128,400,000 on those transactions.

Mr. TOWERS: Yes.

Hon. Mr. MCGEER: You lost another $11,500,000 on being long on U.S. dollars?

Mr. TOWERS: That was our net position in respect to forward contracts.

Hon. Mr. MCGEER: By forward contracts you mean you had contracts out at the time you made the change in the rate of the U.S. dollar?

Mr. TOWERS: Yes. In order to help exporters or importers the board had been willing from the commencement of control to provide protection either by the purchase or sale of U.S. dollars or sterling for future delivery. Ninety days was more or less the limit of the term at one time, although more recently, where exporters or importers could show that they had longer term contract prices, longer protection was provided. That form of protection, as you know, was available to exporters and importers before control through the ordinary operations of the banking system, and therefore was a service which it was thought the board should provide.

Hon. Mr. MCGEER: With $920,000,000 in U.S. dollars in your possession at that time why were you buying more?

Mr. TOWERS: We were buying U.S. dollars for future delivery at the request of the Canadian exporters in order to provide them with the protection which they could have obtained in the ordinary money market before control.

Hon. Mr. MCGEER: Why did you not use the sum of $920,000,000 that you had at that time?

Mr. TOWERS: I do not think that is the point. We had the $920,000,000, but the exporter comes along and says "I have a contract which will result in my receiving $100,000 in U.S. dollars 90 days from now. Will you contract to buy that from me at the current rate, say 10 per cent?"

Hon. Mr. MCGEER: But that was a standing offer to everybody. No one had to make a contract with you to take over American dollars that were coming to him, because your law said the recipient of those dollars had to deliver them to you.

Mr. TOWERS: The contract of course fixed the rate and was a protection to the exporter or to the importer, as the case might be.

Hon. Mr. McGEER: As I understand the Foreign Exchange Control Board regulations, everybody who came into possession of U.S. dollars had to turn them over.

Mr. TOWERS: We would buy them at the rate that day if there was no future contract in existence.

Hon. Mr. McGEER: The rate was stabilized then at 10 per cent in and 11 per cent out.

Mr. TOWERS: The rates up to July 6 were the ones you have mentioned; then they were changed.

Hon. Mr. McGEER: But you changed them.

Mr. TOWERS: The government changed them.

Hon. Mr. McGEER: On your advice.

Mr. TOWERS: The government gets advice from many sources.

Some Hon. SENATORS: Oh, oh!

Hon. Mr. McGEER: This is no laughing matter to hundreds of thousands of Canadians. That brings your total loss on that transaction to $139,900,000?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: And your net revenue over and above operating expenses was $49,000,000?

Mr. TOWERS: And the capital reserve, which you will realize grows by the upward revaluation of our holdings—that is the reverse of the recent situation—was some $84,000,000.

Hon. Mr. McGEER: Where did the $84,000,000 come from?

Mr. TOWERS: It came from the upward revaluation of the Bank of Canada gold holdings from $20.67 to $35 an ounce.

Hon. Mr. McGEER: That was in 1935, before the Foreign Exchange Control Board ever came into existence?

Mr. TOWERS: Yes, that is right. That was in the exchange fund account, and this is really a statement of the exchange fund account.

Hon. Mr. McGEER: But surely you do not wish this committee to believe that because Roosevelt raised the price of gold from $20.67 to $35 an ounce, and the Bank of Canada gold reserves were thereby increased,-that should be offset against losses made by a board that did not come into existence until 1939?

Mr. TOWERS: The exchange fund account was in existence all along, and in 1939 the Foreign Exchange Control Board, by direction of the Minister of Finance, was authorized to operate the exchange fund account.

Hon. Mr. McGEER: What I am dealing with, Mr. Towers, is the operations of the Foreign Exchange Control Board since 1939. Now, I ask you if it is not fair to state that in the operations of the Foreign Exchange Control Board since it came into being in 1939 to date, the losses made by that board are $90,000,000?

Mr. TOWERS: It is not the loss made by the board in the sense in which I think you imply. It is a loss, if you like, incurred through the governmental stabilization programme of exchange during the war, and arising from the governmental decision of change in rate.

Hon. Mr. McGEER: But it does not matter what the situation was. We now are financing a Foreign Exchange Control Board—

Mr. TOWERS: And exchange fund. Call the two the same thing.

Hon. Mr. McGEER: —and we find out that at the end of five years its net losses are $90,000,000.

Mr. TOWERS: And that the earlier profits after revaluation upwards were $83,000,000.

Hon. Mr. McGEER: If you want this committee to say that because the Roosevelt revaluation of gold back in 1935 gave us an increase in the value of our gold in Canada, and that that should be set off against losses of the Foreign Exchange Control Board, then I am perfectly willing to leave it at that.

Now, Mr. Towers, I want to come back to the bill for a few moments. Do you really think that it is necessary for the Foreign Exchange Control Board to take control over transactions as low as $100 to protect the exchange value of Canadian currency?

Hon. Mr. EULER: You said a moment ago that the basis of buying and selling American exchange was 10 per cent and 11 per cent. Did you not later change that to 10½ per cent?

Mr. TOWERS: Yes, that is true. I understood Senator McGeer was referring to the earlier rate. That was changed by buying at 10 per cent and selling at 10½ per cent after the end of the war to reduce the spread, and the present spread is one-half of one per cent. It was changed in October, 1945.

Hon. Mr. McGEER: Do you really think that section 62 is necessary to protect our international position?

Mr. TOWERS: That section provides for a summary procedure for the forfeiture of Canadian foreign currency dealt with contrary to the act if the value does not exceed $100. The object there is to avoid proceeding before a court, which involves expense and time for all concerned. In offences covering amounts up to $100 the penalty following prosecution is generally too drastic, and then there is the cost entailed. In some of these cases the offence is due to ignorance or carelessness and while forfeiture is not justified the use of this procedure enables the board to deal with the offender in a formal way without expense to him and where justified, release the fund. There is a similar procedure in sections 172 to 179 of the Customs Act relating to seizures of goods.

Hon. Mr. McGEER: Do you think yourself that it is necessary to have that rigid power over an amount of $100 to protect our currency?

Mr. TOWERS: I think there are two questions to be considered. One is, whether the board should scrutinize, supervise and control, if you like, small purchases or sales of foreign exchange. I do not see how it is possible to say that the board shall have no supervision over small purchases of exchange and at the same time have any control, because large amounts can go out through a multitude of small transactions. That is quite different from section 62, which tries to simplify the procedure in connection with the relatively unimportant infractions of the act.

Hon. Mr. McGEER: You know that in our Customs Act parliament has provided that Canadians going to the United States for a short visit can bring back free of duty goods to the value of $100; and there is a reciprocal arrangement on the part of the United States?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: You know why that was done, don't you?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: You know that along a large section of the boundary line, particularly in New Brunswick and Quebec, Canadians and Americans go to and fro all the time as though there were no boundary line at all; so it is between Detroit and Windsor, and to a lesser extent on the prairies and in British Columbia. That concession was made, as you know, to increase the flow of tourist trade.

Mr. Towers: Yes.

Hon. Mr. McGeer: Do you know that in the province of New Brunswick your board prosecuted a farmer who walked across the boundary line with a hundred dollars in his pocket and knew nothing of the regulations; the hundred dollars was confiscated and he was fined fifteen dollars? He appealed the case before one of the county judges in New Brunswick who said the man had committed no offence, and threw the case out. The board sought to take the appeal to the Supreme Court of Canada, and finding there was no provision for appeal an order in council was passed providing for such. Did you know that had happened?

Mr. Towers: I do not think I need ask for the person's name. I think we can get the facts of that case, and I believe they are not as they have been reported to you.

Hon. Mr. McGeer: In what particular are they not the same? I will call Mr. Hatfield, who is the member for that district and he will give us the facts.

Mr. Towers: I think it would be better to investigate the facts.

Hon. Mr. McGeer: Did you not get an order in council providing for an appeal to the Supreme Court of Canada?

Mr. Towers: No.

Hon. Mr. McGeer: Do you think that form of persecution—

Mr. Towers: Could we not wait until we know the facts of this case before assuming that a persecution has taken place?

Hon. Mr. McGeer: Do you not see in this kind of legislation the danger of such persecution?

Mr. Towers: Through maladministration that possibility always exists.

Hon. Mr. McGeer: No, through over-zealous administration; through dutiful administration.

Mr. Towers: I would hope not, but in any event, as I said the other day, I would be the last man to say that foreign exchange control is desirable in itself; but, if there is to be foreign exchange control it is necessary to administer it in a way that large numbers of people cannot disregard it. If they do the thing falls into disrepute and an honest individual who would not wish to commit an infraction of the act, if he sees that large numbers of people are getting away with those things because of the lack of supervision of control, he will soon decide to do the same thing himself. It seems to me that the major question is whether in the national interests of Canada control is essential; if it is essential, that is unfortunate from my point of view.

Hon. Mr. McGeer: You will agree, will you not, that the laws should be obeyed?

Mr. Towers: Yes.

Hon. Mr. McGeer: And that the laws should be enforced?

Mr. Towers: Yes.

Hon. Mr. McGeer: And when parliament enacts a law it is the duty of the officials administering it to enforce it impartially against everyone?

Mr. Towers: Yes.

Hon. Mr. McGeer: So that once this parliament puts a law on the statutes, whatever that law may be, the duty of those administering it is to enforce it.

Mr. Towers: Yes.

Hon. Mr. McGeer: May I cite another case from the province of New Brunswick? A woman came to the bank to pay a note of $300; the bank was not open. She met her daughter who suggested that they go across the boundary line to visit some relatives and return later to the bank. They drove to the border crossing, one of your foreign exchange control board inspectors asked if they had any money and she explained what she had and why she had it. The money was confiscated, and afterwards complaints were made from New Brunswick and the Foreign Exchange Control Board took the $300 and paid the woman's note at the bank.

Mr. Towers: That case was brought up before, but we were not given the name, and we cannot locate it.

Hon. Mr. McGeer: I will bring Mr. Hatfield here and he will put those facts before the committee.

Mr. Towers: At the same time as giving the facts could we not be given the name?

Hon. Mr. McGeer: I will get the name for you.

Mr. Towers: In that case we will be able to get down to brass tacks.

Hon. Mr. McGeer: You still say that the situation is going to be so dangerous over the next two years that you must have the power to prevent people from carrying out the legal provisions of our Customs Act, namely to move freely back and forth across the border exchange amounts up to $100?

Mr. Towers: I do not follow that there is legal provision in the Customs Act to that effect.

Hon. Mr. McGeer: I am suggesting to you that that is one of the increased powers that this bill gives to the board, and which it did not previously have.

Mr. Towers: In any event the people can obtain any funds they want for the purchase of American goods, whether they come under the $100 exemption or not.

Hon. Mr. McGeer: Did you not have, by reason of your Foreign Exchange Control Board, regulations giving power over temporary visitors?

Mr. Towers: Which power is that?

Hon. Mr. McGeer: The power to interfere with all persons going back and forth across the boundary line.

Mr. Towers: I do not know that we interfered with them.

Hon. Mr. McGeer: But you have the power to interfere with them under this bill?

Mr. Towers: There are certain provisions which say that foreign exchange should not be purchased without a permit, yes.

Hon. Mr. McGeer: I am reading from section 25(3) of your Foreign Exchange Control Order, P.C. 7387, which is as follows:—

> Nothing in this section shall be construed so as to affect in any way any temporary visitor to Canada who is a non-resident, other than a resident of Newfoundland or of the sterling area.

Mr. Towers: I mentioned that this morning at the commencement of the discussion, and said that the Department of Justice advised against putting that exemption provision into the act itself; it was suggested that exemptions be made by regulations which would be approved by Governor in Council.

Hon. Mr. McGeer: Mr. Towers, I would like awfully well to have the Director of the Travel Bureau here, but he is not in the city. I fear that you are doing, probably unconsciously, our tourist trade a tremendous injustice by this bill.

Mr. TOWERS: I must say, Senator McGeer, that I cannot see any interference with tourists or anything which would hinder that trade. Because the board is interested in the foreign exchange position we are naturally concerned and want more and not fewer tourists.

Hon. Mr. McGEER: I do not suppose you have, in your wide experience, become conversant with the tourist trade?

Mr. TOWERS: I should think I am reasonably so.

Hon. Mr. McGEER: If you are conversant with it, you know that the maritime provinces and the province of Quebec compete for tourist trade with the state of Maine, and with the northern states of New Hampshire, Vermont and northern New York, and that the competition is keen. You also know, no doubt—if you know anything about the tourist trade at all—that the state of Maine is the most highly developed tourist state in the United States of America.

Mr. TOWERS: Although its attractions are not nearly as great as those of the provinces you mentioned.

Hon. Mr. McGEER: Let me speak of my own section of the country. You know that British Columbia competes with Alaska, and also competes with Washington, Oregon and Northern California.

Mr. TOWERS: I believe this year it is competing very successfully.

Hon. Mr. McGEER: I am not so sure about that, but I can tell you that the tourist accommodation in Sierra Nevada is much greater, more efficient and attractive than is the tourist accommodation in the Rockies and Selkirks around the coast. The competition is active and keen, and the tourist organizations in the United States are steadily advocating "See Your Own America First", and some of them are very bitterly opposed to American tourists travelling in Canada. Do you know that that situation exists?

Mr. TOWERS: I know there is competition but I do not know how vicious it is.

Hon. Mr. McGEER: Let me put this proposition to you: in the hands of a competitor of ours who is bitterly opposed to the tourist trade coming to Canada, legislation of this kind could be used very effectively against the trade. Any lawyer reading section 62 could very well advise that a tourist coming to Canada would be liable to be put in jail and have his hundred dollars confiscated.

Mr. TOWERS: I have enough confidence in the good sense of the American people to think they would say that is a yarn.

Hon. Mr. McGEER: I should like you to look at section 45 at page 23 of the bill which reads:—

> Any officer may arrest without warrant anyone found committing or who he on reasonable grounds suspects of having committed any offence under this act may be prosecuted upon indictment.

Mr. TOWERS: That is right; it authorizes arrest without warrant for offences under the act which may be prosecuted upon indictment. That provision is necessary since any such offences relate to persons who are about to leave Canada, and there is no opportunity to obtain a warrant in the usual way. Under section 60 of the bill the offences which may be prosecuted upon indictment are those in relation to property having the value of more than $1,000.

Hon. Mr. McGEER: Then may we look at section 46 which reads:—

> No customs officer shall permit the export or import of any property through any port or place over which he has authority unless he is satisfied that no permit is required for such export or import or that the requisite permit has been obtained.

In what position are you putting the customs officer? How is he going to do that?

Mr. Towers: I should say that he is to use his common sense.

Hon. Mr. McGeer: Let us look at section 47, which reads:—

> No postmaster shall permit the export by post of any letter, parcel, package or other article which contains or which he suspects contains any property for the export of which a permit is required under this act unless he is satisfied that the requisite permit has been obtained.

Is the postmaster to open every parcel, package and letter?

Mr. Towers: No, they are not, but they may on occasion have reason to believe that securities or currency are being exported. May I say as the matter now stands the postal censorship is such that the postmaster may not be entitled to open a piece of mail, but where he suspects that the contents may be securities he is entitled to refer it back to the censor.

Hon. Mr. McGeer: Do you think those extraordinary powers are necessary to protect us in connection with our relations between Canada and the United States?

Mr. Towers: Our relations with all countries, perhaps, would be a better way of putting it, although the United States is the most important factor. The necessity for foreign exchange control has been explained by the Minister of Finance in outlining government policy. Then yesterday, while it is not my job to speak about policy, I did indicate what I thought the situation was likely to be over the next few years, that it was a very dangerous one so far as Canada is concerned if export of capital was freely permitted.

Hon. Mr. McGeer: I am not dealing with export of capital freely permitted. I am dealing with the tourist trade of Canada.

Mr. Towers: It will not be interfered with in any way, shape or form.

Hon. Mr. McGeer: Let us look at section 48 of the bill. It says "Every person"—that includes all the tourists. It says:—

> Every person who is about to leave Canada shall, immediately before leaving Canada, present himself before a customs officer and shall truly answer all questions asked of him by the said officer relating to property which he is taking or proposes to take with him out of Canada, and the said officer may question him with reference thereto.

The next subsection goes on to say that if the officer has reasonable cause to believe that the person has any property concealed upon his person, the officer may search him. What do you think that legislation is going to do to our tourist trade?

Mr. Towers: You will find many formidable provisions in the Customs Act, Senator McGeer, but the customs officers use their heads. You will find that non-residents are not bothered by those provisions, unless the customs officer has reason to suspect that they are taking out unauthorized currency or securities.

Hon. Mr. McGeer: That is your answer on that?

Mr. Towers: Yes.

Hon. Mr. McGeer: And you still say that our situation is going to be so bad over the next two years that we must take these extraordinary powers and place everybody under the supervision of you and your inspectors?

Mr. Towers: I say this, that if the government and parliament decide that foreign exchange control is necessary, then the administration of that control, if it is not to be completely shot to pieces, does require the powers which are set forth here. I also realize that there is a great responsibility so to administer them that while persons who are deliberately trying to evade the law are picked up, innocent persons are not bothered.

Hon. Mr. McGEER: In other words, whereas under the Customs Act parliament decided on a policy to improve tourist trade and international relations between Canada and the United States by permitting freedom of movement up to $100, you want to supervise that?

Mr. TOWERS: Freedom from duty?

Hon. Mr. McGEER: You could go across the line and buy $100 worth of goods and bring it in here duty free.

Mr. TOWERS: A person had to stay over there 48 hours, and not go oftener than three times a year, as I recall. But in any event, Canadians who wish to obtain $100 or $10,000, or $100,000 may do so at the present time.

The CHAIRMAN: May I suggest, Senator McGeer, that the point you are making has been more than fully covered. I could give the answer of the witness to many of your questions, because he has already given it many times.

Hon. Mr. McGEER: I have been present throughout the sittings of this committee and I have never heard sections 45, 46, 47 and 48 dealt with before.

The CHAIRMAN: The answer to those questions you are asking has been repeatedly given.

Hon. Mr. McGEER: I thought I was dealing with sections that had not been dealt with before.

The CHAIRMAN: I do not want to curb your cross-examination, but perhaps you might cover all the objectionable sections in the one question and get an answer from the witness.

Hon. Mr. McGEER: I think these four sections are very important. The most important thing in Canada today is the development of our tourist trade. Now I will come to section 36.

Mr. TOWERS: Speaking of the tourist trade, during the periods when exchange rates were fluctuating—and there were various such periods in Canada between the two wars—one of the most damaging things was the fact that tourists never knew what a store or a merchant would pay for United States currency. In some cases tourists were deliberately gypped. Innumerable complaints were received from tourists and a lot of ill will was caused on that ground. Since September, 1939, however, tourists have known just what their money was worth in Canada. One of the results of this control has been to ensure to tourists that they got a square deal on their currency. I have every reason to believe that that has been advantageous and appreciated.

Hon. Mr. McGEER: That was when the 10 per cent was on?

Mr. TOWERS: Yes. I say that stability of rates is advantageous in connection with the tourist business.

Hon. Mr. McGEER: You still demand the recovery of all American dollars?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: Then why are American dollars circulating everywhere today? I have had several of them handed to me. They are now being circulated as if they were free currency.

Mr. TOWERS: That is true. The fact that the rate has come to par has meant that people are slower in turning in the American dollars to the bank. They will reach there in due course.

Hon. Mr. McGEER: Everybody in the country is committing an offence today. People are already beginning to disregard these regulations. I have had American money handed to me on four or five occasions, and on each occasion I have said, "You cannot deal with that; you have to turn that in to the bank." And I have been told, "Why, it is at par." If you still force everybody to turn over their American exchange to you, there will not be any difference between what happens now and what happened before.

Mr. TOWERS: I do not quite follow that. I do not see its effect on the subject of tourists.

Hon. Mr. McGEER: You are telling me that foreign exchange control stabilizes the unofficial market which you spoke of before.

Mr. TOWERS: No, it had nothing to do with the unofficial market.

Hon. Mr. McGEER: Was it not the unofficial market that caused the gypping and bad feeling you spoke of as having been created in pre-war days?

Mr. TOWERS: No; it was the fluctuating rate.

Hon. Mr. McGEER: According to the chart in your 1946 report the rate did not fluctuate very much. There were four years when there was instability, 1920 and 1921, 1932 and 1933. There was stability from 1922 to 1932, from 1933 to 1940, and from 1940 to 1945?

Mr. TOWERS: Yes. I simply referred to the fact—it is not a terribly important one—that in the five or six years between the two wars when the rate was fluctuating violently it caused many complaints by tourists, and therefore from that point of view stabilized rates are a good thing for the tourist trade.

Hon. Mr. McGEER: But anybody who will look at this chart will see that in sixteen out of the nineteen pre-war years—a period which included boom times and depressions—the Canadian dollar, without control, stabilized itself with the American dollar, and was only out of line in four years, and they were years of violent disturbance, 1920 and 1921, and 1932 and 1933.

Mr. TOWERS: I would say it was doing a fair amount of fluctuation in about five of the years.

Hon. Mr. McGEER: In one of those years it fluctuated up. Between 1934 and 1935 it went higher than it ever dropped in that period. Is that right?

Mr. TOWERS: I did not follow that question.

Hon. Mr. McGEER: If you look at the chart you will see that in 1922 and 1923 it dropped a little, I would say probably down to 91, and in 1934-35 it rose to slightly more than that?

Mr. TOWERS: It rose to about 103 at one point.

Hon. Mr. McGEER: And it dropped to about 92.

Mr. TOWERS: It dropped in 1932—

Hon. Mr. McGEER: No; I am talking about the twenty-year period. In 1922-23 it dropped 2 or 3 per cent?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: And in 1934-35 it rose 2 or 3 per cent.

Mr. TOWERS: Yes.

Hon. Mr. McGEER: Otherwise it was practically stable all the way through?

Mr. TOWERS: Except for two periods when it was very unstable.

Hon. Mr. McGEER: We have dealt with those two periods. During the twenty years from 1920 to 1940, with the exception of four years—those two terms of major disturbance—the Canadian dollar stabilized itself at par with the American dollar, without controls?

Mr. TOWERS: In other words, it flucuated violently in each period of crisis, but was stable in between crises.

Hon. Mr. McGEER: I would like to get this clearly on the record. I can state it and ask you if I have not stated it correctly. In the period 1920 to 1921 Canadian exchange fell below the dollar rate, down to 88?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: It rose to par in 1921-22 and fell to 98 in 1923-24?

Mr. TOWERS: Yes.

Hon. Mr. McGeer: It stabilized itself between 1923-24 and continued stable, with very minor deviations, until 1932?

Mr. Towers: September 1931. That was the time England went off the gold standard.

Hon. Mr. McGeer: Until towards the end of 1931?

Mr. Towers: Yes.

Hon. Mr. McGeer: Then it commenced to fall, and fell to 72?

Mr. Towers: No; say 82.

Hon. Mr. McGeer: It rose again to par in 1933 and it registered above par in 1934, at 102?

Mr. Towers: Yes.

Hon. Mr. McGeer: And then stabilized itself until 1939?

Mr. Towers: Yes.

Hon. Mr. McGeer: It fell in 1939 to 91, did it?

Mr. Towers: 90·9, which is equivalent to the premium of 10 percent.

Hon. Mr. McGeer: And was stabilized at that figure until 1946, July 5?

Mr. Towers: Yes.

Hon. Mr. McGeer: When the Canadian government, acting on high financial policy, decided to change the rate and make it par, is that right?

Mr. Towers: Yes.

Hon. Mr. McGeer: And since then it has fallen on the New York market by six points?

Mr. Towers: You are referring to the unofficial market in New York, which consists of transactions between non-residents, in which the Canadian government does not intervene?

Hon. Mr. McGeer: Yes. It has fallen on the unofficial market in New York by how many points?

Mr. Towers: It was at 10 per cent discount in the unofficial market. The last figure I saw was 3 per cent. That was some days ago.

Hon. Mr. McGeer: There was an unofficial market during 1939 and 1940?

Mr. Towers: There has been all through the war.

Hon. Mr. McGeer: Did the rate vary any from the 10 per cent?

Mr. Towers: I cannot give you accurately its low figure, which was probably sometime in 1940, but speaking from memory it would be about a 25 per cent discount, which would be the equivalent of a 35 per cent premium on United States funds here. At that time dominion bonds were selling in New York at 60 cents on the dollar.

Hon. Mr. McGeer: Looking at that chart, outside of very violent disturbances, we do not need foreign exchange control to ensure reasonable stability of the buying power of the Canadian dollar in relation to the American dollar, do we?

Mr. Towers: During a period of great confidence that has been our experience in the past, although on some occasions it has only been possible by reason of the fact that very substantial borrowing took place in the United States. For example, you will notice in that chart there was a certain disturbance in the rate around 1929. You will recall that late in 1929 there were some pretty serious stock market crashes.

Hon. Mr. McGeer: The worst crash in history was precipitated by the bankers of New York: you know that?

Mr. Towers: Well, because of the reference to New York I am tempted—but I must disagree. Many Canadians were involved in the New York crash, very substantial losses were incurred, and a lot of money had to be remitted to buttress up their accounts between 1929 and 1930. It is interesting to observe that our net new issues of securities—practically all in New York—which had been $39,000,000 in 1928 rose to $176,000,000 in 1929, and to $323,000,000 in 1930. That explains why, in spite of the strain of the times, the exchange rate did manage to keep fairly stable throughout until 1931. We were going into debt in a big way.

Hon. Mr. McGEER: You have learned how to go into debt in a much bigger way since then, though.

Mr. TOWERS: Not in the United States.

Hon. Mr. McGEER: Now, Mr. Towers, if you were sure that you would have a sufficiency of gold and United States dollars over the next two years, would you think this kind of control legislation would be necessary?

Mr. TOWERS: I think one would have to be sure for a longer period than two years.

Hon. Mr. McGEER: All right, say five years.

Mr. TOWERS: Absolutely.

Hon. Mr. McGEER: If you were sure you could have in your possession in the Bank of Canada adequate reserves of gold and United States dollars over the next five years you would not require this control legislation?

Mr. TOWERS: No—

Hon. Mr. McGEER: Thank you.

Mr. TOWERS: That is, with adequate reserves to enable foreign currency to be freely available for trade purposes.

Hon. Mr. McGEER: I asked you for the figures as to how much gold and United States dollars you had in the years 1920 to 1939. Have you got those?

Mr. TOWERS: The figures which it is possible to get do not give a true picture of Canada's foreign exchange position at that time; but I have here all the information which is available.

Hon. Mr. McGEER: Thank you.

Mr. TOWERS: Shall I read it out? It is pretty confusing to read all these figures.

Hon. Mr. McGEER: These gentlemen are all experienced business men, you know.

Mr. TOWERS: Instead of reading all the years, shall I pick one which you may care to choose?

Hon. Mr. McGEER: 1920.

Mr. TOWERS: The Dominion government held $101,000,000 of gold, valued at $20.67 an ounce.

Hon. Mr. McGEER: $101,000,000?

Mr. TOWERS: Yes, at the $20.67 value. The chartered banks held $82,700,000, which included subsidiary accounts. I would say their gold holdings were $72,000,000, some of which might pertain to foreign business. Between the two, that is the Dominion government and the chartered banks, the total gold holdings were $173,000,000 valued at $20.67. It must be remembered of course that the banks also held certain United States dollars at that time for Canadian accounts, and that private concerns also had balances in United States dollars. That is why I say it is difficult to compare these figures with the present ones, which, apart from some foreign operating accounts, have centralized all gold and United States dollars in one hand.

Hon. Mr. McGEER: And of course in those days there was danger, in that gold was freely exportable, anybody who wanted to take it to the United States or any other place could do so.

Mr. TOWERS: I did not understand we were on the gold standard at that time.

Hon. Mr. McGEER: In 1920?

Mr. TOWERS: No.

Hon. Mr. McGEER: If I had gold I could at that time take it to China, England, Ireland, France—anywhere; there was no restriction on the export of gold.

Mr. TOWERS: If you had it personally, but you could not extract any of that gold from the government.

Hon. Mr. McGEER: No. But you are telling me that in 1920 the government had $101,000,000 worth of gold; no United States dollars?

Mr. TOWERS: It may have had a few.

Hon. Mr. McGEER: That whatever United States dollars were held here were in the possession of the chartered banks?

Mr. TOWERS: Yes, or private companies or individuals.

Hon. Mr. McGEER: While whatever gold there was, was either in possession of the banks or private individuals.

Mr. TOWERS: Yes.

Hon. Mr. McGEER: So that the only reserve we had in Canada, controllable by the government, was $101,000,000 of gold.

Mr. TOWERS: That is why it would have been completely impossible for the government to consider the stabilizing of the exchange rate. It had to let the rate go where the market took it.

Hon. Mr. McGEER: Gold and United States dollars in the possession of the chartered banks and private people could move freely out of Canada without any sort of restrictions.

Mr. TOWERS: Yes, deposits in the banks could move freely out of Canada if their owners were willing to pay the price of United States funds.

Hon. Mr. McGEER: There was absolutely no control?

Mr. TOWERS: It was a free-for all.

Hon. Mr. McGEER: In 1920 with the depression disaster came and our Canadian dollar dropped to what, 88?

Mr. TOWERS: About 87 or 88.

Hon. Mr. McGEER: The situation remained exactly the same until 1922. What were the gold holdings then?

Mr. TOWERS: $132,000,000.

Hon. Mr. McGEER: So apparently there was no flight of gold holdings?

Mr. TOWERS: But you couldn't get it from the government.

Hon. Mr. McGEER: But the government could increase its holdings.

Mr. TOWERS: Yes, at a price.

Hon. Mr. McGEER: How much did the banks have then?

Mr. TOWERS: About $83,000,000.

Hon. Mr. McGEER: How much in 1920?

Mr. TOWERS: About $73,000,000.

Hon. Mr. McGEER: So that does not show there had been any flight of the holdings of gold in the banks.

Mr. TOWERS: I may suggest, Senator McGeer, that you cannot have a flight of gold if you cannot get gold.

Hon. Mr. McGEER: But the banks had $70,000,000 odd of gold at the beginning of the depression in 1920, and at the end of the depression they had $83,000,000.

Mr. TOWERS: Yes.

Hon. Mr. McGEER: How much United States dollars had they in 1922?

Mr. TOWERS: I have no idea.

Hon. Mr. McGEER: What, without controls, caused the return of the value of the Canadian dollar to par with the United States dollars in 1922, and an increase in the gold reserves of the banks?

Mr. TOWERS: So far as the return to par is concerned, the pick-up in business and the increase in our exports as well as, I presume, a downward adjustment in our exports levelled out the situation.

Hon. Mr. McGEER: That situation continued from 1920 until 1929, did it not?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: What were the holdings of gold by the Dominion government in 1929?

Mr. TOWERS: They were $63,000,000. There was a time when we really acted as if we were on the gold standard. We were, as you would call it, legally on the gold standard from 1925 on, speaking from memory, and when the strain started in 1928 the government was actually willing, I believe, to give up some of its gold, but early in 1929 decided not to do it any longer. So in effect we then went off the gold standard.

Hon. Mr. McGEER: How much gold did the banks have in 1929?

Mr. TOWERS: About $63,000,000.

Hon. Mr. McGEER: And the government had how much again?

Mr. TOWERS: $63,000,000 also.

Hon. Mr. McGEER: $126,000,000. The collapse came and our Canadian dollar in relation to the United States dollar dropped to 82 during the period between 1930 and 1932?

Mr. TOWERS: No, commencing in September, 1931.

Hon. Mr. McGEER: Well, 1931 and 1932?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: Then in 1932 it came back up to par?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: How much gold did the government have at that time?

Mr. TOWERS: The government holdings did not change at all in the years 1932, 1933 and 1934.

Hon. Mr. McGEER: You still held $63,000,000 at that time?

Mr. TOWERS: $73,000,000.

Hon. Mr. McGEER: In other words, we had the same experience. Following the depression of 1920 the gold holdings of the government increased, and following the depression of 1931-32 the government gold holdings increased again from what they were in the beginning.

Mr. TOWERS: I think we may perhaps be at cross-purposes here. During all those years, except very occasionally when some gold was shipped in very small amounts, the government was not taking any responsibility for the exchange rate. And now, if it were government policy not to take responsibility for a stabilized rate in future, there is no need for exchange control. In that case the rate is left to be determined by the market, and under those circumstances our reserves are far more than adequate.

Hon. Mr. McGEER: There was no flight of gold from Canada during the depression period of 1920-21 or 1931-32, because after both those dates the gold holdings of the Dominion Government were larger than they were when the depression commenced.

Mr. TOWERS: If the government had been backing a certain rate, and had been willing to sell gold in order to support that rate we would not have had any gold at all. When you put gold in a vault and lock it up, and not let anyone in there, of course you will not lose any of that gold.

Hon. Mr. McGEER: But we continued on the same basis until 1939?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: And then something happened. The rate was stabilized at 90·9?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: How was that stabilization effected?

Mr. TOWERS: It was effected by the government being willing to buy and sell unlimited quantities at that figure.

Hon. Mr. McGEER: Of U.S. dollars or of gold?

Mr. TOWERS: They would not sell gold, but gold enabled the government to acquire U.S. dollars.

Hon. Mr. McGEER: How much gold did the government have in 1939?

Mr. TOWERS: That information is in the Foreign Exchange Control Board report. It is not divided as between gold and U.S. dollars but the sum total of holdings of the Foreign Exchange Control Board, the Bank of Canada and the government was $260,000,000.

Hon. Mr. McGEER: That is the total of our gold and U.S. dollars in 1939 when the exchange rate was stabilized and held.

Mr. TOWERS: Of course the private holdings in addition were $132,000,000.

Hon. Mr. McGEER: Can you give me the total?

Mr. TOWERS: It was a total of roughly $400,000,000.

Hon. Mr. McGEER: That is all the gold and U.S. dollars we had when we went into the war?

Mr. TOWERS: That is right.

Hon. Mr. McGEER: That was for Canada the worst period that was ever known in its history?

Mr. TOWERS: That is right.

Hon. Mr. MORAUD: Does that include U.S. securities held privately in Canada?

Mr. TOWERS: No.

Hon. Mr. McGEER: They are separate, but I will deal with them later.

Hon. Mr. MORAUD: It is quite a large amount?

Hon. Mr. McGEER: Yes, and the same story can be told there.

Mr. TOWERS: Of course we had a very narrow shave in 1941 when we got down to, I think, about $180,000,000. We would not have kept that $180,000,000 or anything at all, if it had not been possible to get something over $200,000,000 from the U.K. in connection with her transactions with us in 1940.

Hon. Mr. McGEER: What was the gold production in Canada in 1939?

Mr. TOWERS: I think it was in the neighbourhood of $200,000,000 which of course was being sold for U.S. dollars.

Hon. Mr. McGEER: Senator Crerar, do you know what the production was in 1939?

Hon. Mr. CRERAR: I think a little less than that, but close to $200,000,000.

Hon. Mr. McGEER: I am anxious to know, Mr. Towers, what conditions you envisage as a possibility that it is going to be such that it would cause us to lose $600,000,000 of our gold and U.S. dollars in the next few years?

Mr. TOWERS: Heavy imports, and a substantial volume of exports on credit for which we naturally do not receive U.S. dollars.

Hon. Mr. McGEER: What are these heavy imports that we are going to have from the United States?

Mr. TOWERS: That would require reference to the classified imports, which figures are available.

Hon. Mr. McGEER: My own impression is that as a result of the war we have increased our Canadian industrial capacity tremendously, and the demands by the United States for our products have increased proportionately, which would decrease what we formerly had to import from the United States and increase what we would in normal times export to the United States. What do you say as to that propostion?

Mr. TOWERS: I hope the level of trade will be high on both sides; fortunately we have a fairly high level of national income and employment. Under those circumstances we traditionally will be having importers from the United States. However the expected deficit is not imaginary; it is taking place each month; we see it in our U.S. dollar figures. In my remarks yesterday, while I emphasized that one should not attempt to make an accurate prediction over two years, there was every reason to suppose from the present experience and from studies which have been made in regard to our prospective imports to believe that our U.S. dollar deficit over those two years might be of the order of $600,000,000.

Hon. Mr. McGEER: Are you unmindful of the fact that a great many American investors are coming into Canada and increasing their investments here?

Mr. TOWERS: No, I am not; but I also express the belief that on the capital account we would lose U.S. dollars rather than receive them over the next two years, because I believe that a fair amount of Canadian securities maturing or becoming callable in the United States will be refinanced in Canada.

Hon. Mr. McGEER: May I give three instances of which I am personally aware and with which you no doubt are conversant. One is the Powell River Company on the Pacific Coast.

Mr. TOWERS: Yes.

Hon. Mr. McGEER: It is one of the large newsprint and pulp producers and is a concern of American origin whose head office is still in Minneapolis. They are internationally operating in Florida, Washington and British Columbia. The Powell River Company on the assumption that the trade with the United States is going to increase, and that the great bulk of the trade is in the American market, have increased investments on their plant to the extent of $15,000,000. Do you know that that is so?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: Do you know that Bloedell, Welch and Stewart is also a large international operator on the Pacific Coast?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: Do you know that they have sold their holdings in the state of Washington and are reinvesting $6,000,000 in a new pulp mill in Alberta for export to the United States?

Mr. TOWERS: I was not aware of it, but I am glad to hear it.

Hon. Mr. McGEER: Do you know that the Ocean Falls Newsprint Company, which is a San Francisco organization operating in British Columbia, have made a several million dollar expansion to their business in the anticipation of increased exports to the United States?

Mr. TOWERS: Yes, and there are some new developments taking place in Ontario and Quebec as well.

Hon. Mr. McGEER: I am only speaking of the ones I know, and I suggest that there are even more extensive operations in Ontario and Quebec.

Hon. Mr. HAIG: What does the Powell River Company do?

Hon. Mr. McGEER: It is a newsprint and pulp company. The same thing is taking place all over.

Now, Mr. Towers, I am informed that the requirements of the plastic industry in the United States is going to require in the future more Canadian pulp than has been required in the past, for newsprint purposes. Have you heard that?

Mr. TOWERS: I have heard something about it, but I cannot pretend to be familiar with it.

Hon. Mr. McGEER: There is just one example of a huge increase in the permanent export trade from Canada to the United States. Do you agree with that statement?

Mr. TOWERS: I certainly hope our exports will continue at a high level and will increase. Of course allowance is made in the guess that I made the other day, but I am also hopeful that the level of employment and income here will continue high during the period we are talking about. It is on that assumption that I believe that our almost traditional deficit with the United States will be larger than it was before the war.

Hon. Mr. McGEER: May I point out that the Director of the Travel Bureau, appearing before our Senate Tourist Investigation Committee said that the new conditions of labour in the United States, that is holidays with pay and higher rates of wages, have thrown on the market an enormous increase in American tourist trade which is available to Canada and as a result of that the government has increased the appropriation for advertising for tourist trade from $250,000 to $670,000 this year. We were told by the Director of the Travel Bureau that we could look forward to a steady increase of the largest tourist trade volume that we have ever known in our history. Do you agree with that?

Mr. TOWERS: I hope we will have an increase in the volume.

Hon. Mr. McGEER: Do you not see that it is reasonable to expect that we are going to get it?

Mr. TOWERS: I think it is so.

Hon. Mr. McGEER: Do you know that the quotas for our lumber trade now is, 50 per cent for Canadian consumption, 35 per cent for British consumption and 15 per cent for the rest of the world?

Mr. TOWERS: I have forgotten the figures.

Hon. Mr. McGEER: Those are the figures as I have them. I am told by British Columbia and other lumbermen that the market for Canadian lumber and shingles is large enough in the United States now to take everything that we are cutting if we want to sell it there. Do you know that?

Mr. TOWERS: Well I know that there is a tremendous demand for lumber in the United States.

Hon. Mr. McGEER: And that they believe that the demand will continue, but that we will not fill that demand; we are satisfying our domestic needs and we are meeting the requirements of Great Britain. If it is necessary to save our Canadian dollar we could increase our export to the United States tremendously by transferring it from Great Britain to that country. Could we not do that?

Mr. TOWERS: Is that a question, Senator McGeer?

Hon. Mr. McGEER: If we were endangering our dollar position with the United States, we could stop exporting to Great Britain and export lumber to the United States, could we not?

Mr. TOWERS: There are various things which we are selling elsewhere which could be sold in the United States.

Hon. Mr. McGEER: That shows a tremendous increase in the export of our forest products, a large increase in industrial production in Canada, and an increase in American investments in industrial production in Canada as part of our post-war programme, does it not?

Mr. TOWERS: Yes, I think so.

Hon. Mr. McGEER: All of those would indicate that we are going to have a surplus of American dollars.

Mr. TOWERS: You have forgotten the imports.

Hon. Mr. McGEER: What are the imports that are going to offset this huge increase in exports that are contemplated?

Mr. TOWERS: I could not recite a catalogue but I could produce trade figures.

Hon. Mr. McGEER: What are they? You are talking about imposing upon the people of Canada the most drastic controls that have ever been imposed, to protect us against a position that you envisage. Now I have given you a picture that repudiates that.

Mr. TOWERS: No; you have given a series of general statements.

Hon. Mr. McGEER: No; I have told you what Americans are investing in Canada to satisfy the increase in Canadian trade with the United States that they contemplate.

Mr. TOWERS: I think Canadian trade with the United States will increase, but I believe that imports will increase more.

Hon. Mr. McGEER: You have told me that if you were sure we were going to have enough American dollars and gold to protect our position you would not need these controls.

Mr. TOWERS: That is right.

Hon. Mr. McGEER: Now I say to you quite frankly that the picture as it is now indicates a tremendous flow of American dollars into Canada through the increase in our exports of forest products. And I go a little further. There is a shortage of lead, is there not?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: There is a shortage of zinc. There is a shortage of copper, and there is a demand in the United States for all the lead, zinc, copper and silver that we can produce in Canada, is that not right?

Mr. TOWERS: That is right.

Hon. Mr. McGEER: So we can look forward to—

Mr. TOWERS: I have got so accustomed to saying "That is right" to everything, that I just said it automatically in that case. I do not think zinc is in quite such a cheerful position as the other things.

Hon. Mr. McGEER: I am very well satisfied with the position as far as we have gone, Mr. Towers, and I think you and I have the same purpose in mind. We are both looking for a secure, prosperous and progressive Canada. I do not think there is any question about that. Now let us come back to what are these imports that are going to offset that. What imports are going to offset our exports? What imports are going to increase?

Mr. TOWERS: I think rather than pick out a couple of obvious items and leave it at that I should do it on the basis of a memorandum. Otherwise what I say will be completedly vague and just inconclusive and waste the time of the committee, but I would be glad—I am speaking very sincerely—to try to bring something that was more concrete.

Hon. Mr. McGEER: You see, we are contemplating putting in those ludicrous controls over the people of Canada; and I can tell you that a great many people in our nation, when they come up against this kind of thing, will be just like you said the man would be in the illustration given by Senator Kinley yesterday—they will think the thing is utterly insane. They will think more than that—that parliament has been converted into a lunatic asylum. They will want to know definitely the reasons why we have to have these controls. And we who are responsible to the people have got to go out and tell them about it.

The CHAIRMAN: I would ask the honourable senator to continue cross-examining the witness and not to make a statement.

Hon. Mr. HAIG: On a point of privilege, Mr. Chairman, I do not think one man should be allowed to make speeches. I submit, Mr. Chairman, that you must see that everybody keeps within the rule. Senator McGeer is not the only individual in this room. He may be the most brainy man in Canada, at least in his own estimation, although he may not be that in the estimation of the rest of us. I ask that he be kept within the rules.

Hon. Mr. McGEER: I understood that the members of the committee had completed their questions.

The CHAIRMAN: Let us proceed with the cross-examination.

Hon. Mr. HAIG: Mr. Chairman, I ask you please to hold him to cross-examination and not permit him to make speeches.

The CHAIRMAN: I think he has been warned now.

Hon. Mr. McGEER: Now, Mr. Towers, you say that you will give us a memorandum of the imports that you think are going to cause a deficit, a depreciation of our gold and U.S. dollars, is that right?

Mr. TOWERS: Yes. I do not know that is is possible to predict in every commodity what the imports may be, but I think it is possible to take the present situation in respect of imports and to form views in regard to what the increases may be over a certain period of time.

Hon. Mr. McGEER: Will you do the same thing for exports?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: Because, after all, if you have formed a conclusion that we are going to run into a deficit of $600,000,000, it must be because imports and exports do not balance?

Mr. TOWERS: Incidentally, of course, we are running into a substantial deficit now.

Hon. Mr. McGEER: In 1939 there was no such thing as Bretton Woods.

Mr. TOWERS: That is right.

Hon. Mr. McGEER: Bretton Woods, as I understand it, is a security for every nation which is a party to it, in the matter of the buying power of its dollar on the exchange market.

Mr. TOWERS: Bretton Woods is intended to help, temporarily at least, those countries which find themselves short of foreign currency.

Hon. Mr. McGeer: For instance, if the Canadian dollar gets out of equilibrium with the American dollar and we have not any dollars or any means of rectifying the situation ourselves, we have a right to apply to the International Monetary Fund for assistance?

Mr. Towers: Yes.

Hon. Mr. McGeer: And they will lend us United States dollars?

Mr. Towers: If they have any at that time.

Hon. Mr. McGeer: But they would do more than that, would they not? They would stop the United States from varying its exchange against us under certain circumstances?

Mr. Towers: The United States would be bound by the same form of agreement as other members, *i.e.* not to vary its rate by more than 10 per cent on a unilateral basis, or if it was any more than that they would have to have agreement.

Hon. Mr. McGeer: There are also provisions to hold it at par or within a very short distance of par after it is fixed at par?

Mr. Towers: Of course, the Americans have no commitments in regard to the Canadian rate.

Hon. Mr. McGeer: Anyway, in addition to whatever else we might have, we have Bretton Woods to look to, which we did not have in 1939.

Mr. Towers: That is a possible source of credit.

Hon. Mr. McGeer: To help to stabilize the value of the Canadian dollar in the United States or any other place?

Mr. Towers: That is right.

Hon. Mr. McGeer: You have on hand today one billion 500 million dollars of gold and U.S. dollars?

Mr. Towers: Yes, more or less.

Hon. Mr. McGeer: That is, you had it at December 31, 1945?

Mr. Towers: Yes.

Hon. Mr. McGeer: And you told us this morning that it was substantially the same.

Mr. Towers: Yes.

Hon. Mr. McGeer: And you said that if the minister wants to disclose what the actual provision is, that is up to him.

Mr. Towers: Yes.

Hon. Mr. McGeer: If we lost $600,000,000 of gold and U.S. dollars in the next few years we would still have on hand a reserve of $900,000,000?

Mr. Towers: I suggested the possibility of $600,000,000 to $750,000,000, if there was control over capital movement.

Hon. Mr. McGeer: We have looked at the period of 1932 to 1939, and there was no change then. We have gone through two depressions of a violent nature, and at the end of each Canada had more gold than when the depression started.

Mr. Towers: With no commitment in regard to stabilizing the rate.

Hon. Mr. McGeer: There was no control at all?

Mr. Towers: That is right.

Hon. Mr. McGeer: You tell us that because you think there is going to be a deficit of $650,000,000 in gold and U.S. dollars, which will leave you with a reserve of $900,000,000 of gold and U.S. dollars—

Mr. Towers: I suggested the possibility of $600,000,000 to $750,000,000.

Hon. Mr. McGeer: Well, I will say $750,000,000.

Mr. Towers: Leaving, say, $750,000,000.

Hon. Mr. McGeer: Leaving say $750,000,000 of gold and U.S. dollars in your reserves. That is the worst that you envisage?

Mr. Towers: With control.

Hon. Mr. McGeer: Well, what would it be without control?

Mr. Towers: That depends upon the atmosphere, the degree of confidence in the United States, and also on other matters affecting decisions in the United States, as to whether they want to sell their Canadian bonds here and take the funds out. I may say that as a matter of fact, which I did not mention in my remarks the other day, we have always been vulnerable to changes of opinion in the United States. The degree of vulnerability has increased during the war, not only by reason of the fact that United States residents now hold some $500,000,000 in Canadian securities more than they did at the beginning of the war, but also because they now hold substantial amounts of Canadian domestic bonds, that is bonds payable in Canadian dollars, which they bought during the war. If there is freedom in regard to the export of capital, there would be a strong inclination to realize on those holdings.

Hon. Mr. McGeer: Why?

Mr. Towers: Because the rate is now at par and because the interest which they earn on those Canadian bonds is only very little above what they could earn on U.S. bonds.

Hon. Mr. Moraud: May I ask a question, please? What was the proportion of realization of Canadian securities after the exchange was placed at par?

Mr. Towers: The sales have been very small, hardly noticeable, because of course it is not possible for the man or the company which sells to get U.S. dollars from the proceeds of the sale, unless the sale is to another non-resident on the unofficial market at New York. I have not looked at the quotations during the last few days, but a few days ago it was 3½ per cent. If there is not any substantial amount of sales of securities here and there was a substantial volume of funds being offered in that unofficial market at New York, that rate would go down. And at a certain level the owner of the securities would decide it is not worthwhile selling them and taking that loss.

Hon. Mr. Moraud: Would you not regard the small proportion of selling after the exchange was put at par as an additional indication of confidence in Canada?

Mr. Towers: Yes, their degree of confidence at the present time is high. Certainly most of those who bought those domestic bonds would not want to sell them and take them out at 3 or 4 or 5 per cent discount on the unofficial market. On the other hand, if they were certain of getting U.S. dollars at par, the temptation would be pretty strong.

The Committee adjourned until 8 p.m.

The Committee resumed at 8 p.m.

The Chairman: Honourable members, I am informed that Mr. Towers will not be available to-morrow morning and that means that unless we close the cross examination to-night we will have to go on possibly to-morroy night or on Friday. I do not want to press anybody unduly, but if we could proceed expeditiously, it would be well because we have yet a certain number of honourable senators who have not had any chance, up to this minute, to say a word on the question.

Hon. Mr. HAIG: This morning I made some remark and one of my supporters said to me this afternoon that he thought I was too bitter. I had no bitterness in my heart at all and if the honourable gentlemen feel aggrieved, then I gladly withdraw my words.

Hon. Mr. KINLEY: I wonder if I could ask a qestion before the cross examination starts, a question which concerns Nova Scotia?

The CHAIRMAN: You are out of order; if we are to proceed expeditiously, I think we must keep to a fast rule and I would ask you to refrain. You will have a chance later on.

Hon. Mr. ABBOTT: I wonder if, before Senator McGeer resumes his cross examination of Mr. Towers, I might say a few words. A question was raised yesterday, I think, as to the placing of a time limit on the operation of this bill. I indicated that I would be prepared, subject to confirmation by my colleagues, to agree to a reasonable limit along the lines suggested with respect to that point. My colleagues are in agreement that a limit such as suggested would be acceptable. I realize that we are discussing the subject matter of the bill and not the details and that there have been a number of matters raised in the course of the discussion which indicates that some amendments, in certain particulars, might meet the views of some honourable senators.

Some members have mentioned, for instance, that since the parity of the rate of exchange with the United States dollar, United States currency is more freely in circulation than formerly, and that it is an offence under the Foreign Exchange Control Order and Regulations. That is true, but the great bulk of that currency will eventually find its way into the banks, so no great harm is done; and the intention would be, if the bill is enacted, to provide an exemption by which a resident could have in his possession a moderate amount of United States currency without committing an offence. I realize this is not the time and the place to suggest an amendment, but if the committee felt it would be preferable to provide for an exemption of this nature, say up to $100.00, there would seem to be no great objection to doing so, providing that the exemption might, if it should be necessary, be reduced or eliminated by regulation which would require the approval of the Governor in Council. I think the committee will realize why it would be necessary to have a provision of that nature. There should be means of checking a leak of that kind, if it developed to proportions considered to be dangerous.

The same question has been raised by a number of honourable senators, particularly by Senator Kinley, with respect to the fact that the bill now requires a permit for the export or import of all property. Here again it was felt that the most appropriate course in drafting an act was to word the provision in general terms and to make exceptions by way of regulation from the point of view of effective administration of the act. I am informed that it is unlikely that it would be necessary to extend the present control in the foreseeable future; but if it be felt desirable to do so, there would be no objection to limiting the permit required for the export of goods, securities, and currency and for import to goods, which is in line with the present practice. The third point which has also been raised here and which has also been indicated, relates to the determination of the fair value, under regulation 1C3, and it has already been indicated that the necessity of the exercising by the board to determine, subject to appeal to the Exchequer Court, has, in practice, been limited to transactions between related companies, which are not at arms' length, through dealings with each other and that it is unlikely to prejudice the effective administration of the act if the power of determining fair value were limited to that category of cases. If we felt it desirable to amend the provisions of the act along those lines, there would be no objection to it. There might be some other points as to which similar amendments might be appropriate, but I indicate those because they have been raised here. The important one, I think, is the duration provision; but the others may be of some substance.

Hon. Mr. McGEER: What is the objection to continuing in the bill the provision for the regulation exempting temporary visitors entirely out of the bill?

Hon. Mr. ABBOTT: Well, it is felt that that could be the subject of abuse. It was in the original bill and was taken out at the suggestion of the Department of Justice because they felt it would be a matter that could be more appropriately handled by administrative regulations from time to time. Frankly, let me say, as far as I am concerned, if the committee felt that it was desirable and necessary to have in the bill a provision with respect to tourists, which is now in the existing regulations, I would have no objection to it provided that a similar practice were made with respect to what I am suggesting with regard to currency limits which people may hold.

Hon. Mr. McGEER: That would be in line with the $100 provision which is in the Customs Act.

Hon. Mr. ABBOTT: I do not want to interject a discussion as to the detailed provisions of the bill, but I would point out to the committee at this stage that that sort of matter can, if it be felt desirable, be handled in the bill rather than by regulation.

Hon. Mr. McGEER: One other suggestion: In the making of the regulations I suggest to you, as a matter of practical experience, speaking as a former member of parliament and of the government, that the regulations should be made by the Governor in Council and that they should always be under the control of the Governor in Council. I ask you to take this under consideration. This is not an order in council from which this power comes. This power which has been given, comes from the parliament, which is different from the power that the board now has, which comes directly from the Governor in Council.

Hon. Mr. ABBOTT: It comes from the War Measures Act.

Hon. Mr. McGEER: It comes from parliament, the government, and then, by an act of parliament to the Foreign Exchange Control Board by order in council; and that places the Governor in Council in control of everything which the Foreign Exchange Control Board has in the way of power or has in the way of making regulations or administrative action. When we pass this act and give the board power to make regulations, although they are subject to approval by the Governor in Council, once they are approved by the Governor in Council, they become a part of the law and I question very much whether the Governor in Council, having approved of the regulation, would then have power to initiate a change in the regulations. If the Governor in Council makes the regulations of the Foreign Exchange Control Board and the Board administers them, the Governor in Council will always be directly responsible for the regulations, for control over them, for power to withdraw them or for power to amend them. That power under the present proposal would not be continued in the Governor in Council.

Hon. Mr. ABBOTT: That is a matter of legal opinion. I agree with you that the Governor in Council would not only have the power to make the regulations but to approve them and to rescind them; I believe that power exists.

Hon. Mr. McGEER: There would not be any question about it; if the Governor in Council instead of the board made the regulations.

Hon. Mr. ABBOTT: I would agree that no board should have the power to make regulations that could not be rescinded by the government of the day; but it is purely a legal question, how the authority should be exercised.

Hon. Mr. McGEER: Would there be any objection to the Governor in Council making the regulations? Technically, they would be passed by order in council instead of as they are now, passed by the board and approved by order in council?

Hon. Mr. ABBOTT: I would like to discuss that matter with the Department of Justice.

Hon. Mr. McGEER: Another principle in connection with that is the question of responsible government. I think that if the Governor in Council is directly responsible for these regulations, it is quite likely that the Governor in Council would be more careful to consider what it is enacting.

The CHAIRMAN: May I call attention of the honourable senators to the fact that we are supposed to proceed with the cross examination of the witness.

Hon. Mr. McGEER: I thought that, having introduced a subject, there were some things that might be considered at the same time. I may have been out of order in that, but this seemed to me to be an appropriate occasion to bring them to the attention of the minister.

Hon. Mr. ABBOTT: I think the point is answered in the subject matter of the bill; but again that is a matter of opinion. The board is, in effect, simply the creature of the minister; it is fully responsible to him and through him to parliament for all its actions. Subsection 4 reads:

> 4. The minister shall control and direct, for the purposes of this act and subject to its provisions, the operation of the exchange fund account hereinafter mentioned and the Foreign Exchange Control Board hereinafter established.

Hon. Mr. McGEER: That is the minister; that is not the Governor in Council.

Hon. Mr. ABBOTT: My honourable friend knows that the Governor in Council is the cabinet and that the minister is a member of the cabinet.

Mr. MACNEILL: This bill would in the ordinary course come back here for detailed examination in any event.

Hon. Mr. ABBOTT: I do not want to interject a detailed discussion of the bill now; but, as I have said, I thought it might be helpful if I indicated at this stage the attitude of the minister and the government with respect to some of these matters.

The CHAIRMAN: Let us proceed.

Hon. Mr. McGEER: Now, Mr. Towers, have you those statements of imports and exports?

Mr. TOWERS: Yes, I have them. I think, perhaps, it would be best if I put it on the record. The statements read as follows:—

CANADA'S ESTIMATED BALANCE OF PAYMENTS WITH DOLLAR COUNTRIES; CURRENT ACCOUNT, CALENDAR YEAR 1946 AND 12 MONTHS ENDING SEPTEMBER, 1947

(In Millions of U.S. Dollars)

	1946	1947
RECEIPTS		
Exports to U.S.A.	838	920
Exports to other countries for payment in $	233	220
Net non-monetary gold	107	125
Tourists	180	200
TOTAL	1,358	1,465

PAYMENTS		
Imports from U.S.A.	1,215	1,375
Imports from other countries for payment in $	166	190
Tourists	102	110
Interest and Dividends (net)	155	160
Freight (net)	62	65
Other Current Items (net)	30	5
TOTAL	1,730	1,905
Estimated loss of U.S. Dollars in Current A/C	372	440

These estimates are based on 1946 experience and assumptions in regard to the coming 12 months which appear reasonable at this time. Even if the inevitable errors turn out to be on the side of overestimation of U.S. dollar deficit, there seems to be no likelihood of the deficit being less than $300 millions for 1946, and say $350 millions for 12 months ending September 1947.

IMPORTS FROM THE DOLLAR AREA, COMPARED WITH PRE-WAR
(In Millions of U.S. Dollars)

	1937	1st half 1946	Est. 1946	Est. 1947 (12 months ended Sept.)
From U.S.A.	463	560	1,215	1,375
From other countries paying in $	78	79	166	190
TOTAL	541	639	1,381	1,565

EXPORTS TO COUNTRIES MAKING PAYMENTS IN U.S. DOLLARS, COMPARED WITH PRE-WAR
(In Millions of U.S. Dollars)

	1937	1st half 1946	Est. 1946	Est. 1947
To U.S.A.	391	406	838	920
To other countries paying in $	157	113	233	220
TOTAL	548	519	1,071	1,140

I could emphasize some of the main features; or, on the other hand, I could cover them in detail.

Hon. Mr. McGEER: I would like to have it in detail.

Mr. TOWERS: May I mention the main features first, and then come to some of the details in the light of what was said earlier; and I would like to emphasize that these estimates, while they are based on present experience and based on a sensible appraisal of the prospects, are, like all estimates, subject to change in the light of unforeseen developments. But these figures which I have here relate to Canada's estimated balance of payments with dollar countries in terms of United States dollars.

I have two sets of figures. One set relates to the calendar year 1946 of which a good portion, as you may imagine, at least half a year, is not an estimate because the figures are actual ones. The second set is that of figures representing estimates of the situation for the twelve months commencing September 1st next. I picked that period because of the fact that on an earlier occasion I have talked about the prospects for the next twelve months.

These first figures, for the calendar year 1946, indicate receipt of United States dollars of $1,358,000,000; and they indicate expenditure of United States dollars of $1,730,000,000, or a deficit in current account transactions in United States dollars for the present calendar year of $372.000,000.

For the year commencing September 1, 1946, roughly the next twelve months, receipts of $1,465,000,000, and expenditures of $1,905,000,000, and a deficit again in current account of $440,000,00. These estimates are based on

1946 experience and on assumptions in regard to the coming twelve months which appear reasonable at this time. Even if the inevitable errors turn out to be on the side of over estimation of United States dollars deficit, there seems to be no likelihood of the deficit being less than $300,000,000 for 1946, and, say, $350,000,000 for the twelve months ending September 1947. Now, it may occur to the honourable senators, that to produce, first of all, a possible figure of $440,000,000 deficit for the twelve months commencing September 1 next—and even after, we do not know, it may be a little on the high side, but keeping very conservative—we cannot see a deficit of less than $350,000,000 for one year; it does not agree very satisfactorily with the case which I made earlier on that, over the next two years we might on current account have a United States deficit, in United States dollars, of something over $500,000,000. If it is $350,000,000 for the first year, that would leave only $150,000,000 for the second. The reason for that is that in making the original statement here in the committe, I did want to be careful not to lay myself open to the suggestion that I was raising bogeys in order to convince people of the necessity for having an exchange control. I could have used, on the basis of reasonable probabilities, a current account deficit figure distinctly higher of $500,000,000, but I preferred to be on the definitely optimistic side from that point of view.

Now, as to the make-up of these figures, I do not think we are being optimistic in regard to possible experience with the United States. For example, in 1946 they will be approximately $838,000,000; but we put down $920,000,000 for the year commencing September 1, 1946. That is an increase of $82,000,000. In exports to other countries for which we receive payment in United States dollars, the present calendar year shows $233,000,000, while in the next period that I am speaking of, $220,000,000; that is a decrease of $13,000,000; but we have had to cut out for the 1947 period receipts from UNNRA which were $33,000,000 in the 1946 period. Then we assume that gold will go up from $107,000,000 to $125,000,000; and that receipts from tourist traffic will go up from $180,000,000 to $200,000,000. Incidentally, all of these figures are in terms of United States rather than Canadian dollars. Receipts from tourists spending American money of $180,000,000 is, of course, a very high figure in relation to the past. In the year before the war it was about $125,000,000; but for next year we say $200,000,000.

On the import side—and here is where we come to the bigger figures—for the calendar year 1946, imports from the United States amounted to $1,215,000,000. In the second period of twelve months ahead we hope that these imports will go up to $160,000,000, to a total of $1,375,000,000. Imports from other countries for which we pay United States dollars, first period, $166,000,000; next period, $190,000,000; tourist expenditure by Canadians in United States dollars, this year, $102,000,000; next period $110,000,000; net United States dollar costs for payment of interest on dividends, $155,000,000 and $160,000,000 respectively. Then there are some freight items and other small current items which I won't bother to mention; but to give an indication of the situation in regard to exports and imports because it is hard to evaluate these figures unless we can make some comparison.

Exports to the United States—I picked 1937, the pre war year, because it was a good year for our exports to the States. It will be recalled that business was picking up strongly in that year, when our exports to the States were $391,000,000; and for 1947 we estimate them at $920,000,000. In other words, an increase of not quite two and one-half times. Of course, prices have risen in the interval but it is also assumed there will be a definitely stronger volume of exports to other countries paying us in United States dollars of $157,000,000 in 1937 and $220,000,000 in 1947. Total exports for which we received payment in United States dollars in 1937 amounted to $548,000,000, and in 1947 $1,140,000,000. So that does indicate more than a doubling in value of our trade with the United States dollar countries on the import side, and we have got more than a doubling. From the United States in 1937 we imported $463,000,000 worth of goods and we estimate that for the twelve months commencing September 1 next that the value of the imports from the United States will treble as compared with 1937; that will be $1,375,000,000 from other countries which we pay United States dollars; and we estimate that the cost will more than double from $78,000,000 to $190,000,000, making the total United States dollar cost of United States imports of $1,565,000,000.

I do not think that that figure is at all distorted because the estimated cost for 1946 is $1,381,000,000 and that is in line with the actual experience for the first half of this year. We estimate a moderate increase in imports in the last half of this year compared with the first, but not a formidable difference. In other words, these figures are based on present experience plus an allowance for a fair increase in exports sold to the States and of tourist receipts and from a further increase in our imports from the United States, which is already becoming evident as supplies in that country come from their factories in greater quantity.

Hon. Mr. McGeer: Have you any details upon which these figures are made up? What do these imports consist of? What are these dollar countries outside of the United States?

Mr. Towers: It is practically confined to the Latin American countries plus the fact that we do get some dollars from our trade with Europe.

Hon. Mr. McGeer: What countries would you put in the category of United States dollar countries?

Mr. Towers: So far as imports are concerned, all countries except those in the sterling area.

Hon. Mr. McGeer: And they consist of the United States, the Latin American countries, and what else?

Mr. Towers: I would have to get a geography to name them all, but countries outside of the British Commonwealth. The sterling area comprises the British Commonwealth and Empire except Canada and Newfoundland, Egypt, the Anglo-Egyptian Sudan, Iceland, Irak and countries with whom we pay dollars for imports and all the other countries in the world with whom we trade, except the ones I mentioned.

Hon. Mr. McGeer: And what do the imports from the United States consist of? I mean the larger categories, I do not want the minor ones.

Mr. Towers: The dominion bureau figures of the Department of Trade and Commerce for the first six months of this year contain of course tens of thousands of items, but in categories. Incidentally, this total of imports for the six months, $618,000,000, does not seem to agree with the figure I gave a moment ago of, I think, $560,000,000. But I see my $560,000,000 was in terms of American dollars; this is Canadian. These figures show $618,000,000 for the first six months of this year as the value of imports from the United States. Here are the larger categories:—

Agricultural and vegetable products	$ 75,000,000
Fibre, textiles, and textile products	57,000,000
Wood, wood products and paper	31,000,000
Iron	201,000,000
Non-ferrous metals and metal products	31,000,000
Non-metallic products except chemicals	111,000,000
Chemicals	42,000,000
Miscellaneous commodities	43,000,000

That amounts, $618,000,000, is exactly the same as the figure for the first six months of 1945, although in 1946 the war products in 1945 war importations were exceedingly heavy. That is, we are importing from the United States on a wartime scale but for civilian purposes.

Hon. Mr. McGEER: Those are the exports in categories.

Mr. TOWERS: Yes. By the way, these figures are just for the United States. It would be a very complicated matter to give the additional figures of imports from other dollar countries.

Hon. Mr. McGEER: What about exports?

Mr. TOWERS: I think I have those here. I do not believe that in this export publication they are separated into the same categories.

Hon. Mr. McGEER: They are kept separate in some categories?

Mr. TOWERS: They are separated into a million categories, but not re-assembled in the form which I have here. I think that information is obtainable, but it does not happen to be in this publication.

Hon. Mr. McGEER: But you have the information, whether it is in that category form?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: In the light of the information you have given to us, the thing that strikes me as being extraordinary and unusual is that the government of Canada should have taken the action which it did take on July 6 of this year, and which reduced the flow of American dollars to Canada.

Mr. TOWERS: Does it? I was not aware it would reduce the flow of American dollars to Canada.

Hon. Mr. McGEER: I thought you told us this morning that as a result of taking off the 10 per cent premium on Canadian dollars the inducement to invest in Canada had been discouraged.

Mr. TOWERS: We were not talking about direct investment, but of purchases of Canadian securities as a purely market transaction. Yes, that change in rate will reduce those purchases and will therefore tend to arrest the increase of our debt in the United States.

Hon. Mr. McGEER: And arrest your increased accumulation of American dollars?

Mr. TOWERS: That is right.

Hon. Mr. McGEER: Does not a ten per cent premium on Canadian money payable in terms of U.S. dollars increase the returns on goods exported from Canada to the United States and U.S. dollar countries?

Mr. TOWERS: It does not increase our reserves of U.S. dollars unless it is the case that the 10 per cent premium on United States funds enables certain Canadian industries to compete where they could not otherwise do so. Under existing conditions the demand for goods around the world is such that I believe our great industries are fully able to compete and hold their own.

Hon. Mr. McGEER: For instance, take Canadian gold.

Mr. TOWERS: I realize that in that field the change in rate of course will have a certain effect on production and will lessen somewhat the amount of United States dollars which came from that source.

Hon. Mr. McGEER: Why was that done then in the face of the urgent demand for United States dollars which this deficit you present now indicates?

Mr. TOWERS: I would not say the immediate necessity is great, because, as already stated, Canada has very substantial reserves—reserves which will enable us to meet what in prewar terms would have been regarded as an enormous deficit, and to come through the transition period without imposing, I should hope, any restrictions on imports, until we come to the time when we hope our customers who are not now able to pay a substantial amount in United States dollars for our products will be in a position to do so.

Hon. Mr. McGEER: Does it not strike you that the practical remedy for that situation is not in controlling Canadian currency so much as in developing production in Canada and working out a rate with the United States whereby Canadian and American trade can be balanced?

Mr. TOWERS: I should certainly hope that in the course of the next year—shall we say?—the efforts which are being made to encourage freedom of trade will be fruitful.

Hon. Mr. McGEER: I think you will agree with me that in the face of this deficit which you present we certainly should do everything in our power to encourage, develop and extend the tourist trade from the United States into Canada?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: Well, Mr. Towers, to come back to what I was discussing at the adjournment, have you that statement of American investments extending over that period of time?

Mr. TOWERS: Yes; not for all the exact years that you mentioned, but I think it will serve your purpose. I have the estimates of the Dominion Bureau of Statistics for the years 1926, 1930, 1933 and 1939. We ourselves have tried to bring them up to date as at the end of 1945.

Hon. Mr. McGEER: May I have a look at that statement?

Mr. TOWERS: Yes. (Hands statement to Senator McGeer).

Hon. Mr. McGEER: In 1926 the total investment by the United States in Canada was $3,196,000,000. Is that right?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: Having gone through the depth of the depression, we went up at the end of that break shown on your chart, between 1931 and 1932, with an increase of investments by the United States from $3,196,000,000 to $4,491,000,000. Is that right?

Mr. TOWERS: You mean in 1933?

Hon. Mr. McGEER: Yes.

Mr. TOWERS: That is, U.S. investments in Canada?

Hon. Mr. McGEER: Yes; and the United States investments in Canada continued until in 1939 they were at $4,190,000,000.

Mr. TOWERS: Yes. They went down somewhat, and we repatriated securities in those intervening years between 1933 and 1939.

Hon. Mr. McGEER: And today they stand at $4,925,000,000?

Mr. TOWERS: That is our estimate.

Hon. Mr. McGEER: During that period shown in this chart, in which Canada and the United States together went through one of the worst economic depressions that the world has ever known, we wound up in 1939 without any indication of any flight of Canadian investments or of the Canadian dollar.

Mr. TOWERS: In times of crisis United States capital, not direct investment, but marketable securities or a portion of them, would tend to run, but this would be checked by the exchange rate. On the other hand, with the very high premium on United States funds, naturally Canada does not repatriate any securities deliberately.

Hon. Mr. McGEER: That is very true. Quite apart from the reason, we have gone through the depression and through this war, and we have wound up with an increase of American investments in Canada since 1926 from $3,196,000,000 to $4,925,000,000.

Mr. TOWERS: What was the first period you mentioned?

Hon. Mr. McGeer: 1926.

Mr. Towers: On the other hand, I think you will readily understand that, between late 1939 and 1940 and probably the early part of 1941, what would have happened: the exit of United States capital would have been tremendous. There were times when Dominion Government bonds were selling in New York at 60 cents on the dollar.

Hon. Mr. McGeer: You yourselves took the attitude that the situation was serious because your board would not allow re-investment by Canadians in Australian bonds on the New York market.

Mr. Towers: We did not have enough money.

Hon. Mr. McGeer: You would not allow any re-investment.

Mr. Towers: Re-investment of a conversion security?

Hon. Mr. McGeer: Yes. You took the attitude at one stage, when Japan was threatening Australia, that Australia investment was not a good investment.

Mr. Towers: Oh, no; we would not allow people to buy additional Australian bonds, but not because we thought they were bad investments.

Hon. Mr. McGeer: As a matter of fact, during the period from 1941 to 1942 it looked to many investors that the war would end with disasterous consequences but yet we were strong. Now what I am pointing out is that you fear that all of a sudden there is going to be a flight away from Canada of American investments and American dollars which will wreck this billion five hundred million dollar reserve that we now have, and wreck our financial position. I ask you to recall that Canada and the United States have gone through the depression and through the war, and having done all that, is this not the result: that from 1920 to 1946 we have increased our gold and U.S. dollars by nearly five times?

Mr. Towers: From 1920?

Hon. Mr. McGeer: Yes, roughly speaking. According to your figures we had something less than $350,000,000 in gold and U.S. dollars in the banks and government in 1920.

Mr. Towers: Yes; I was not criticizing your estimates of five times, because I think it is a bit more.

Hon. Mr. McGeer: It increased from something under $300,000,000 to $1,500,000,000?

Mr. Towers: Yes.

Hon. Mr. McGeer: And from 1926 to 1945 we have increased our investments by the United States in Canada from $3,196,000,000 to $4,925,000,000.

Mr. Towers: Yes, and that is one of the reasons we have the cash.

Hon. Mr. McGeer: But why in the face of that record do we now fear that the situation is going to be completely reversed?

Mr. Towers: By the way, the term "flight of capital" almost implies complete despair and panic. I am not suggesting that, but I am suggesting that if in a couple of years from now our reserve is cut in half, to $750,000,000, how much could we afford to risk in the way of a movement back of funds to the United States? It is not a question of thinking that the large part of our five billion dollar investment would go. If any circumstances unbalanced the movement of a few hundred million dollars—three or four hundred million—that would be extraordinary, dangerous and an upsetting thing; moreover it will be recalled that I did not dare estimate the situation for more than two years. I do not suppose that our deficits will be cured in the third year.

Hon. Mr. McGeer: They will be cured and can only be cured when Canadians develop their own products and by developing in the United States a market equivalent to our imports.

Mr. TOWERS: Some of Canada's great markets are overseas. It was from the surplus and our trade with those countries, that we managed in the past to balance our deficit with the United States. If that type of trade cannot be developed again, then, of course, Canada faces some extraordinary major changes in the volume and direction of her trade.

If, on the other hand, the U.K. and Western Europe are restored to reasonable prosperity that is a different matter. These are things in connection with which many attempts are being made by the United Nations as a whole to solve. How they will turn out, no one knows.

Hon. Mr. MCGEER: Of course the great development of our production of iron, steel and gold are all available to us, and we cannot do those things by currency regulation and control.

Mr. TOWERS: That is perfectly true. And while I want to reply to the questions you address to me, Senator McGeer, I do not want to appear as a person who is propounding exchange control. It is a policy which has been adopted by the government, and I have tried to explain some of the reasons for it, as I understand them; but if someone else takes the view that even in the face of what I believe is now practically a certain reduction in our reserves to the extent that I have mentioned it is nevertheless worthwhile, and without knowing anything more about the future than we know today, to take the chance that we will not experience any capital withdrawals without control, then that is a matter of opinion.

Hon. Mr. MCGEER: Another way by which we might balance the situation is by Canadians investing in the United States, taking profits and bringing them back home.

Mr. TOWERS: You mean in the way of securities.

Hon. Mr. MCGEER: No, I mean in the various activities that are available. For instance, I mentioned this morning the international operations in the form of forest products.

Mr. TOWERS: That direct investment is allowed.

Hon. Mr. MCGEER: But it is for export to the United States. Do you know of the New England Fishing Company?

Mr. TOWERS: No.

Hon. Mr. MCGEER: That is one of the largest fishing companies on the Pacific Coast, and operates in Alaska, British Columbia, Washington and Oregon, with its main operations and headquarters in B.C. One of its heads came from Chicago and another from Minneapolis. That company has made its largest expansion in the last two years, and it assumes that the exports of both fresh and canned fish from British Columbia are going to command the best prices ever paid, and the largest demand ever known in the United States.

Mr. TOWERS: I hope so, because we have not been pessimistic about our exports to the United States.

Hon. Mr. MCGEER: I again point out to you that Canadian investments in the United States, where they will offset American investments here—if dividends and interest are going to flow freely back and forth—is one way by which we might put ourselves into balance with the United States.

Mr. TOWERS: Canada has in the form of subsidiaries a number of profitable enterprises in the United States, and I hope they will increase.

Hon. Mr. MCGEER: In your 1946 report you say this:—

> In the later years of the war the inflow of capital to Canada from the United States became an important source of exchange. The inflow took the form mainly of the purchase of Canadian securities by United

> States investors. The movement first became marked in 1942 and rose sharply in 1943 when gross sales of outstanding Canadian securities for United States dollars amounted to nearly $200 million, or almost twice the total in 1942. While there was some falling off in 1944, the total for the year still exceeded $100 million and in 1945 rose again to more than $200 million.
>
> Purchase of outstanding issues accounted for the greater part of the capital inflow although a number of new issues were also floated in the United States in connection with refinancing. Multiple currency issues guaranteed by the Dominion Government were exported in large quantities and provincial, municipal and corporation issues were also bought in substantial volume. With increased liquid reserves it was possible in 1943 to call several Dominion issues payable in U.S. currency with a par value of $106 million in advance of their date of maturity; in addition parts of two other Dominion issues were refinanced in the United States. In 1943 a Canadian National Railway Government-Guaranteed issue aggregating $57 millions payable in New York was called for redemption and New York pay Dominion issues aggregating $40 million and $115 million were called for redemption in 1945 and in January 1946, respectively.

Surely that was improving the position between Canada and the United States, was it not?

Mr. Towers: I would not call it improving; it was a case of going into additional debt.

Hon. Mr. McGeer: But all the securities purchased by the United States were payable in Canadian money, and only in Canadian money?

Mr. Towers: Not all; a certain number of them were.

Hon. Mr. McGeer: The large proportion were.

Mr. Towers: At a guess, I think one might say a half; but I point out that is only a guess.

Hon. Mr. McGeer: Why were we selling securities there payable in American dollars?

Mr. Towers: Old issues already in existence.

Hon. Mr. McGeer: That is by way of refinancing?

Mr. Towers: Outstanding issues with the U.S. dollar claimant features on them. Ones which were in existence prior to the commencement of the exchange control. Since that time new ones have not been created.

Hon. Mr. McGeer: Surely any securities that have been issued to finance the war have all been issued payable in Canadian dollars?

Mr. Towers: Yes. I am talking about securities which were in existence as of September, 1939.

Hon. Mr. McGeer: I understand American currency that came in to purchase our securities was very largely to purchase Canadian securities payable in Canadian dollars?

Mr. Towers: Not very largely. Originally the inflow of investments was directed through the acquisition of securities outstanding in September 1939, or issued prior to September 1939, which were payable in U.S. dollars. The amount of those, of course, is by no means unlimited, and as new ones were not being claimed the market became bare of them. Then the American investors turned their attention to investment in Canadian dollar securities, and in 1944 and 1945 purchases were quite heavy, although by no means entirely in Canadian domestic issues.

Hon. Mr. McGeer: Could you give me a statement of the amount of Canadian securities which have been acquired during the last five years, payable in Canadian dollars?

Mr. Towers: No, I cannot separate the two things.

Hon. Mr. McGeer: Why can you not separate them?

Mr. Towers: Because I have not got the information at the moment.

Hon. Mr. McGeer: How can you arrive at a conclusion, if you cannot separate them?

Mr. Towers: Because I know of a number of purchases sufficient to make me believe with good foundation that the purchases of Canadian pay securities have taken place to the extent of at least $200,000,000. If I am asked to be precise, and say $250,000,000 or $325,000,000, I cannot say. I might be able to get the information, but I am not certain.

Hon. Mr. McGeer: I should like to have the information, because I am told that the reason the Americans invested in our Canadian securities was that the interest rate was higher and they looked upon the future of Canada as secure.

Mr. Towers: Yes.

Hon. Mr. McGeer: And with the ten per cent premium, it was an inducement which made an excellent investment. I have had that explanation from innumerable salesmen interested in the trade.

Mr. Towers: That is true.

Hon. Mr. McGeer: And with the dollar parity my information is that the marketing of Canadian securities payable in Canadian dollars has fallen off in the United States.

Mr. Towers: To a large measure I should think that is true.

Hon. Mr. McGeer: Again I say it is difficult for me to understand why an action of that kind should be taken by the Canadian government when that gift was what apparently you fear we are going to need so badly in the future.

Mr. Towers: I would hardly suggest that we follow a course of action in perpetuity which would involve a substantial increase in our already enormous debt to the United States, if we can possibly avoid it.

The Chairman: I do not want to interject, but it seems to me that we have been on that ground for some time and the witness has given his opinion. Unless he will now confess that he is wrong and Senator McGeer is right, we cannot get any more from him on this point.

Hon. Mr. Campbell: Mr. Chairman, I was wondering if we have not sufficient facts on the record now to enable the committee to discuss what report it should make. I know that in cross-examination it is difficult for counsel to refrain from putting proposals and getting answers in the form of arguments between counsel and witness. It seems to me that perhaps we have had almost enough evidence, unless there is some further evidence that Senator McGeer may require to make out his case.

The Chairman: I do not know whether your opinion is shared by the majority of the members of the committee. I would not like to curtail the cross-examination by Senator McGeer, but if he continues I would suggest that he try to get information which is not already on the record.

Hon. Mr. McGeer: I understood from Senator Lambert that he had taken the position, which I certainly agree with, that while we have heard evidence on this thing from one side, the side of the men who will be administering the Foreign Exchange Control Board, we have heard nobody else. There are of course in Canada a large number of people vitally interested in these proposals, people whose businesses are greatly affected by them. There is the timber industry in British Columbia, the fishing industry, the mining industry—all are affected by this control. The gold mining industry is particularly affected. If we are going to hear just one side, we will not find a solution to the problem. We are concerned here not merely with the subject-matter of this bill, but with a subject-matter which involves the trade relations between Canada and the United States. That is a much bigger thing.

The CHAIRMAN: But as I understand it, the subject-matter under consideration is foreign exchange control. There are, no doubt, alleys leading up to this subject-matter, but I think you have travelled some distance along them. I do not want to curb your cross-examination of the witness, but it seems to me that for some time you have been trying to get from him a statement that you are right and he is wrong. I do not expect he will give you that solace.

Hon. Mr. McGEER: I do not expect it from this witness, but I might get it from other witnesses equally competent, if they are called.

The CHAIRMAN: I would invite you to continue your examination, but not to spend too much time on a point which appears to me to have been covered, namely, as to why the witness considers there are reasons for a foreign exchange control. I think the main part of the cross-examination has been on that, and the witness has given his reasons why in his opinion the board as proposed in the bill is necessary.

Hon. Mr. McGEER: I expected he would support the bill.

The CHAIRMAN: He has given to the committee the reasons why in his opinion the bill should be passed. You may have a different opinion; you may think those reasons are not good, or are good only to some degree. We have been waiting to see if the witness would give you other reasons than he has already given, but for some time he has not added to his reasons.

Mr. TOWERS: That is so, Mr. Chairman. I have not got any more reasons.

Hon. Mr. BENCH: Mr. Chairman, on the point raised by Senator McGeer, may I make a statement? Whether this bill passes or not, we have foreign exchange control for the time being, and probably as long as the Emergency Transitional Powers Act continues in force. I would certainly hope that at this stage we are not to be called upon to hear representations from people throughout the country who may be opposed to the provisions of this bill. My understanding certainly was when we adopted the rather unusual procedure of referring the subject-matter to the committee that it was for the purpose only of hearing the government side, so to speak, as to whether or not in principle this bill should get second reading, and then perhaps be referred back to the committee for study of its details. I personally would be rather shocked at the suggestion that we should at this stage hear representations from all and sundry as to why there should or should not to be a foreign exchange control measure of this kind. Even at this time I find myself reposing in a rather wide area of doubt as to what is in the best interests of the country, in respect of this particular piece of legislation.

Hon. Mr. McGEER: I agree with that, but the point is whether or not we should at this stage agree that we are to hear only one side. The bill was introduced in the other house on the 17th of June, went before the Banking and Commerce Committee over there and came over to the Senate on the 12th of August. We have heard one side now, and we have certainly heard enough to indicate that there is a wide field for investigation before we decide to clamp this type of rigorous control upon the Canadian people. The report of the Foreign Exchange Control Board dated March, 1946, gives a summary of the board's powers as they are at present and as they can continue under order in council until the next session of parliament. They are set out on page 11:—

> All foreign exchange received by residents of Canada must be sold to an authorized dealer. In addition, on April 30, 1940, the Foreign Exchange Acquisition Order was passed requiring all residents of Canada to sell to the Board all foreign exchange in their possession,...

The CHAIRMAN: Every senator has the bill before him, and it is the subject-matter of the bill that we are to consider. Senator McGeer raised a point as to hearing witnesses from outside. It is, of course, for the committee to decide whether it wants to hear witnesses from outside, and unless it expresses a desire to do so I do not think we should call any other witnesses.

Hon. Mr. McGEER: I am not a member of the committee. I made that suggestion simply in answer to the suggestion of Senator Campbell that we should close the examination now.

The CHAIRMAN: I would ask you to proceed with the examination in the light of the observations that have been made.

Hon. Mr. McGEER: Mr. Towers, have any approaches been made to the authorities in Washington, that is the trade department or the financial departments, to secure co-operation between the United States and Canada in the matter of sustaining the value of the Canadian dollar along with the American dollar and the balancing of trade between the United States and Canada?

Mr. TOWERS: I do not quite understand the first part of the question, but I think perhaps in the main it relates to possible approaches in regard to the stimulation of trade between the two countries.

Hon. Mr. McGEER: Well, we had the Ogdensburg agreement and the Hyde Park agreement, and we have the joint defence arrangement, and we have been associated in many other projects. I am wondering if any approaches have been made to get co-operation in stabilizing our currency in relation to United States currency.

Mr. TOWERS: I think that is a matter that should be referred to the minister.

Hon. Mr. ABBOTT: I am sorry, I was not following the question.

Hon. Mr. McGEER: In stabilizing our Canadian dollar with the American dollar, I suggested to the Governor that we might be able to work out by agreement something of the same kind of arrangement that we had in the Hyde Park and Ogdensburg agreements, and that we have in the joint defence agreement, which is continuing.

Hon. Mr. ABBOTT: That is just an advisory body, the joint defence board.

Hon. Mr. McGEER: But it is still operating, I understand.

Hon. Mr. ABBOTT: Yes, a permanent joint board.

Hon. Mr. McGEER: I was wondering if approaches had been made to secure by agreement measures of security.

Hon. Mr. ABBOTT: So far as I am aware, there have been no discussions with the United States as to bilateral trade or exchange agreements. The Hyde Park agreement, as you know, Senator, was a wartime arrangement.

Hon. Mr. McGEER: Some of us are somewhat concerned about this type of regulation, because it does not seem to be in line with the Bretton Woods agreement, but seems to be the kind of thing that we should be developing along with England if we were going to go into an economic war with the United States, which I think would be disastrous in the future. You see, this is the very kind of power that Schacht secured from Hitler.

The CHAIRMAN: I would ask the honourable senator not to give evidence himself, but to ask questions.

Hon. Mr. McGEER: I am asking that question.

Hon. Mr. ABBOTT: You are making a statement, Senator, not asking a question.

Hon. Mr. McGEER: Has any approach been made?

Hon. Mr. ABBOTT: On what subject?

Hon. Mr. McGEER: To the United States, on the subject of stabilizing the Canadian dollar.

Hon. Mr. ABBOTT: Not as far as I know.

Hon. Mr. McGEER: On the subject of balancing trade with the United States.

Hon. Mr. ABBOTT: There is no use in discussing that. That involves reciprocating goods and services. We do not want to do that by government action. That is a matter between private traders on both sides of the line. Certainly there has been no discussion as to entering into a bilateral trade agreement with the United States, to buy certain quantities of American commodities and to sell them certain quantities.

Hon. Mr. McGEER: We had an arrangement between the Government of Mr. King and the Government of Mr. Roosevelt. Mr. King went to Washington and made an arrangement.

Hon. Mr. ABBOTT: The only arrangement I am aware of is the arrangement under the Hyde Park agreement, whereby the United States agreed to take from Canada certain materials which were needed for the prosecution of the war, and a large portion of which were needed for other countries under lend-lease.

Hon. Mr. McGEER: This was before the war, immediately following the election of President Roosevelt, when the President got the power to reduce the duties by 50 per cent; and the duties were reduced, and it was through that more than anything else, without any controls at all, that we got the stability that we enjoyed during the depression.

Hon. Mr. ABBOTT: Oh well, of course, if you are speaking in generalities, there are continual discussions in respect to promoting trade between this country and the United States as well as with all other countries. There is a conference in October of this year.

Hon. Mr. HAYDEN: Has the old trade agreement made last year lapsed?

Hon. Mr. ABBOTT: I do not know.

Hon. Mr. McGEER: Wouldn't it be better to let this legislation stand over until we find out the results of that October agreement? We will know when the next Parliament sits what the results of that great international conference will be.

Mr. TOWERS: I think the October conversations are of a very preliminary and historical character.

Hon. Mr. McGEER: But am I incorrect in stating that one of the hopes is that we are going to be able to bring about international methods of balance of trade and of stabilizing international exchange? Is not that great international conference, even if it is only preliminary, supplementary to the Bretton Woods program?

Mr. TOWERS: Yes, exactly.

Hon. Mr. McGEER: Then, I ask you, as Minister, would it not be the part of wisdom for Canada to hold this measure over until the situation clarifies, and then we might, without offence to the United States or to anyone, and without putting repressions upon our people that are objectionable to so many, work out a program that would be much more satisfactory and one which is less fraught with danger or possibilities of danger? Is this not such an occasion? Let me put this question to you fairly and frankly, that nothing will be lost by our taking time. Why all the hurry in this thing?

Mr. TOWERS: I think that point has already been dealt with by the minister; but as for the situation clarifying itself in the course of the next six or nine months, that, I think, is a hope which passeth understanding.

Hon. Mr. McGEER: Well, would anything be lost by our taking time?

Mr. TOWERS: Again, I say that the minister has explained in regard to the situation; perhaps he might say: Is anything to be gained by our waiting?

Hon. Mr. ABBOTT: Yes, I think I covered that aspect of it this morning or this afternoon; I think I mentioned that placing foreign exchange control in statutory form was first proposed in 1945 and it has been considered as government policy since that time; that it is desirable to put this measure into statutory form and is necessary for the interest of the people of Canada. I quite appreciate that that is a matter of opinion; I am expressing my own opinion as a member of the government and I assume that you hold a different opinion. I do not know that our opinions will ever coincide.

Hon. Mr. McGEER: Let me ask you just how much have you paid for the land you have acquired for the new building?

Mr. TOWERS: $1,000,000 for the land for the Bank of Canada.

Hon. Mr. McGEER: How much do you propose to expend on the building?

Mr. TOWERS: That I cannot tell you as yet because we have not sufficiently developed the plans. Because of the shortages of material and so forth we, naturally, do not propose to start work in the immediate future.

Hon. Mr. McGEER: But in any event a building to be built on a $1,000,000 piece of land would be a very substantial building?

Mr. TOWERS: Yes.

Hon. Mr. McGEER: Now can I get from you a statement of the number of employees of the Foreign Exchange Control Board, what salaries are paid to them, and what wages are paid?

Mr. TOWERS: That is shown.

Hon. Mr. McGEER: In general?

Mr. TOWERS: In the back pages of the report.

Hon. Mr. McGEER: But it does not give any details; I want to know, for instance, how many people you employ there above a salary of $5,000?

Mr. TOWERS: Yes, I can give you that; I can prepare for you a list of those officials and their salaries.

Hon. Mr. McGEER: And I would like to have a list of the officials and their salaries above, say, $2,500.

Mr. TOWERS: You mean the names

Hon. Mr. McGEER: I do not know; I certainly want the names of the head officials, who they are. You see, this is not in the civil service.

Mr. TOWERS: That is right.

Hon. Mr. McGEER: And the veterans' preference does not apply to it. Altogether, how many employees have you got in the Bank of Canada and the Foreign Exchange Control Board? I think it is a matter of interest to this committee to know what this thing is going to cost and what it is costing today.

Mr. TOWERS: The cost is shown here.

Hon. Mr. McGEER: What is that?

Mr. TOWERS: This is the annual report.

Hon. Mr. McGEER: Yes, but is it not an interlocking thing between the Bank of Canada? You supply the staff?

Mr. TOWERS: No; as matters stand, the Foreign Exchange Board pays for its own staff.

Hon. Mr. McGeer: And you supply the staff?

Mr. Towers: We supply a certain number.

Hon. Mr. McGeer: You supply a certain number?

Mr. Towers: The salaries paid to them are charged the Foreign Exchange Control Board if they work full time; but there are a few part-time advisers, and in that case the Foreign Exchange Control Board does not pay.

Hon. Mr. McGeer: In order to get a proper picture we would have to have the salaries charged to the Bank of Canada for the Foreign Exchange Control Board. Has the number not been reduced from five hundred and something to 202. Have those people gone back to their employment in the Bank of Canada?

Mr. Towers: No, they were those who came entirely from outside. They have gone back to their original employment.

Hon. Mr. McGeer: Was the total number of the staff reduced?

Mr. Towers: Yes.

Hon. Mr. McGeer: Could you give us the numbers of the staff and the costs for the Foreign Exchange Control Board and the Bank of Canada?

Mr. Towers: Yes.

Hon. Mr. McGeer: As of 1939 to 1945.

Mr. Towers: Yes, the Bank of Canada information in that respect was, of course, brought up to date in 1944 in the hearings of the Banking and Commerce committee in that year; but I could give you fresh figures certainly.

Hon. Mr. McGeer: Yes; these should be brought up to date and we could have the figures of the Foreign Exchange Control Board employees and the Bank of Canada employees from 1939 to 1945 brought up showing the interchange, if there is any.

Mr. Towers: Well, showing the two things and with the exception of the few people who give part time to the Foreign Exchange Control Board; but as I say, there is no intermingling so far as costs are concerned.

Hon. Mr. McGeer: There was one other point I wanted to examine you on in the matter of our foreign exchange position. Up until the present time we have been doing a great deal of financing, or up, until, let me say, the first war we did a great deal of our financing for Canada abroad; that is, our provinces, our municipalities, and our dominion government, and our railways borrowed abroad very largely.

Mr. Towers: In the United Kingdom, speaking of the time before the first war, yes; but very little, before 1914, in the United States.

Hon. Mr. McGeer: From 1914 to 1918 we developed the practice of financing the war out of our own financial resources.

Mr. Towers: Yes, supplemented in that first war by some borrowing in the United States.

Hon. Mr. McGeer: And in this war we developed the power to finance the war almost exclusively in Canada out of financial resources of our own.

Mr. Towers: Exclusively in Canada.

Hon. Mr. McGeer: Exclusively in Canada; and we developed the technique not only of financing our own war program but of financing the heavy capital investment in Canada that was required, and we did that out of our own financial resources.

Mr. Towers: Yes. It must be stated, of course, that the Hyde Park agreement was a very important factor in rendering it unnecessary for us to borrow United States dollars.

Hon. Mr. McGEER: Yes, and at the same time we have reduced our foreign indebtedness abroad by repatriating securities from both the United Kingdom and the United States.

Mr. TOWERS: From the United Kingdom, yes; but the balance, of course, of American holdings of our securities has increased due to their purchases in the open market, not by direct borrowing. But when one makes allowance for additional holdings of cash, we were "even-Stephen" with the United States at the end of the war compared to the beginning, and we reduced our debt to the United Kingdom.

Hon. Mr. McGEER: We reduced our debt to the United Kingdom and we reduced our debt to the United States payable in American dollars.

Mr. TOWERS: That I cannot say without seeing if I can get the separation between Canadian pay and foreign pay in their purchases of Canadian market securities during that period.

Hon. Mr. McGEER: And in addition to that we have been able to finance loans to the United Kingdom and to different foreign countries to the extent of $2,000,000,000 for the post war period?

Mr. TOWERS: In the post war period, not very far from $2,000,000,000; that is right, which are not yet used.

Hon. Mr. McGEER: And during the process of the war we financed gifts to the United Kingdom and to mutual aid to the extent of nearly $4,000,000,000.

Mr. TOWERS: I would like to check on that; I do know it was a large amount, the mutual aid and that original gift. The mutual aid to the sterling area originally was $3,175,000,000. In addition to that there was a loan which at the end of 1945 was $561,000,000. That $3,700,000,000 is close enough.

Hon. Mr. McGEER: And our settlement of the war investments of Britain over here came to another $500,000,000 or $600,000,000, where we wrote off what Britain owed us for the war.

Mr. TOWERS: Is that the repatriation you are referring to?

Hon. Mr. McGEER: No, I am talking about the wiping off of the British Empire Air Training Scheme, which was $425,000,000.

Mr. TOWERS: $425,000,000, yes.

Hon. Mr. McGEER: Therefore, roughly speaking, for mutual aid, in addition to our own war program and the general settlement of the loan, we have financed Britain and foreign countries to the total of $7,000 million. Isn't that right?

Mr. TOWERS: I could not follow all those items; I am sorry; the mutual aid was something like that, in 1937, and the write off in 1941, and the other items were—

Hon. Mr. McGEER: There was a $3 billion one; and a $450 million to the British Empire Air Training Scheme; and $500 million, the balance of a loan to Britain, and other incidental items, that would come to $4 billion.

Mr. TOWERS: $4 billion odd.

Hon. Mr. McGEER: And $2 billion in the way of foreign loans.

Mr. TOWERS: But carrying into the post war period.

Hon. Mr. McGEER: Yes.

Mr. TOWERS: Yes.

Hon. Mr. McGEER: That comes to something between $6,000 million and $7,000 million that we in Canada have financed out of our own financial resources.

Mr. TOWERS: Yes, or which we are in the process of financing now.

Hon. Mr. McGeer: I suggest to you that we have developed that financial power as a result of our use of the facilities of the Bank of Canada and other financial techniques which we have developed in the last ten years.

Mr. Towers: Including, notably, a tremendous savings effort on the part of our people during the war.

Hon. Mr. McGeer: Our people have got an enormous volume of cash in their possession. In addition to that, our cash resources in the bank have increased by double since the war started.

Mr. Towers: Yes.

Hon. Mr. McGeer: Our holdings of liquid securities in the possession of our people have more than doubled since the war began.

Mr. Towers: Yes.

Hon. Mr. McGeer: We have increased the issue of Bank of Canada paper by nearly $1,500,000,000; that is right?

Mr. Towers: Yes, you mean, note issue?

Hon. Mr. McGeer: Yes.

Mr. Towers: About $1,000,000,000 say.

Hon. Mr. McGeer: About $1,000,000,000; that is something three times. Now, I suggest to you that we are in a position in the future to finance all capital investments for Canada, that is, for cities, for municipalities, for public utilities, and for national government programs, by using our own financial techniques without borrowing abroad.

Mr. Towers: I would hope so.

Hon. Mr. McGeer: You would hope so. Now, had we followed that course previous to accumulating these debts you spoke of, we would not be short of American dollars or anything else, would we?

Mr. Towers: We have never received American dollars in the first instance, and never had them to spend. What we have done in the interval I could not tell you.

Hon. Mr. McGeer: You told us that Canada is the most heavily indebted country in the world.

Mr. Towers: Yes.

Hon. Mr. McGeer: How much is our debt external to it?

Mr. Towers: Those are the figures which we mentioned a moment ago; to all countries including the value of their contract investments in Canada in subsidiary plants and so on; $6,700,000,000.

Hon. Mr. McGeer: And what is the investment of other countries here to offset that?

Mr. Towers: That is the investment of other countries in Canada.

Hon. Mr. McGeer: What investments have we got abroad offsetting that?

Mr. Towers: At the end of 1945 probably something of the order of $1,000,000,000.

Hon. Mr. McGeer: So we have a net foreign debt position against that of $5,000,000,000; is that right?

Mr. Towers: $5,700,000,000.

Hon. Mr. McGeer: $5,700,000,000.

Mr. Towers: Yes.

Hon. Mr. McGeer: Now, how are we going to liquidate that debt?

Mr. Towers: I should say by the sweat of our brow and a lot of luck.

Hon. Mr. McGeer: By the sweat of our brow and a lot of luck?

Mr. TOWERS: Over many generations.

Hon. Mr. McGEER: All right; I will suggest to you then, if we had let the flow of American currency continue to come into Canada and reinvested that money in the United States, that would have been one way of offsetting the investments of the Americans in Canada; would it not?

Mr. TOWERS: You mean that our investments in the United States from which we receive money would earn us more than their investments in Canada?

Hon. Mr. McGEER: Yes.

Mr. TOWERS: Well, if their investments were in $2\frac{1}{2}\%$ bonds, and our business enterprises were successful, yes; but obviously these things do not take place on a tremendous scale over night.

Hon. Mr. McGEER: No?

Mr. TOWERS: Of course, Canadian enterprises might wish to develop business enterprises in the United States akin to the ones they have in Canada or to get better sources of supply, or to encourage Canadian exports but are unable to do so as matters stand to-day.

Hon. Mr. McGEER: If we could secure, as we have secured in the West, a very large flow of Americans coming in to Canada and bringing their money, not only as settlers on the land but as builders of businesses, that would do it too, would it not?

Mr. TOWERS: If they become Canadians, you mean, and live here and have their profits here and pay their taxes here.

Hon. Mr. McGEER: Yes.

Mr. TOWERS: I think that helps.

Hon. Mr. McGEER: Why put restrictions against that kind of thing?

Mr. TOWERS: There are not any restrictions.

Hon. Mr. McGEER: There are. This whole regulation is a barrier to that kind of thing.

Mr. TOWERS: I have not seen it acting as such and I can only judge from my own experience.

Hon. Mr. McGEER: We got this flow without any loss during the time when there were no controls and you have given to me—I do not know how the rest of these senators have taken it—the most unoptimistic picture of our future with the United States as anything I have ever heard.

Mr. TOWERS: I would not call it unoptimistic. Canada is doing a tremendous trade these days; there is high employment and national income; under those circumstances we are buying a great many goods in the United States and selling a great many goods to other countries; but we are selling quite a lot on credit and this is a period during which we will have to make use of a substantial amount of United States dollars on balance. In other words, if the countries of the world, particularly those which were disrupted by war, get on their feet again and get going with efforts to establish a multilateral and higher trade, then there will be a successful outcome.

Hon. Mr. McGEER: Again I put that situation to you; that it would be much better to bring in a policy of legislation six months from now or a year from now without suffering any loss.

Mr. TOWERS: It would be long after that before the situation clarifies itself, in my humble opinion.

The CHAIRMAN: Senator Davies, you have a question?

Hon. Mr. DAVIES: I have only one question I would like to ask the minister. Have you received any representations at all from any business organizations with regard to this bill; any objections to it?

Hon. Mr. ABBOTT: No, not so far as I am aware. I mentioned the other day that when this bill was before the committee in the house, the chairman of the house committee wrote to the Bankers' Association and asked if they cared to make representations; and I placed their letter on the record yesterday.

Hon. Mr. DAVIES: There has been evidence since that the bankers have profited to some extent by this legislation. Have you heard from the Canadian Manufacturers' Association?

Hon. Mr. ABBOTT: No; there has been no representation made to the government either for or against the bill by the Canadian Manufacturers' Association.

Hon. Mr. DAVIES: Isn't it fair to assume that those who will be called upon to administer the foreign exchange control would be more careful not to offend the citizens of Canada if they were administering an order in council than if they were administering an act passed by both houses of parliament?

Hon. Mr. ABBOTT: I do not know, senator; I would be almost inclined to think they would be more careful in administering an act than in administering an order in council to which so much objection was taken.

Hon. Mr. DAVIES: I have been very interested in this discussion but I have the feeling from Mr. Towers that he is too optimistic about the number of Lord Chesterfields who might be adminstering this act all over Canada; remember, they are just mine-run individuals and that it will be mine-run individuals who will be handling it; and certainly the restrictions in this act are very, very severe. That is why I want to know if there have been any objections from any business organizations?

Hon. Mr. ABBOTT: None at all, senator, so far as I am aware; and I have been following this legislation all the time.

The CHAIRMAN: Senator McLean, have you any questions?

Hon. Mr. McLEAN: I think Mr. McGeer has covered it pretty well, but there are one or two questions I would like to ask Mr. Towers. With regard to our understanding with the other nations, the United Kingdom and the United States, according to a report of the Foreign Exchange Control Board, before the war we had in Europe about $2,500,000,000 of securities or obligations. Is that right?

Mr. TOWERS: I would just like to get that.

Hon. Mr. McLEAN: And we repatriated—

The CHAIRMAN: Just a minute.

Mr. TOWERS: Yes, I follow you on that statement.

Hon. Mr. McLEAN: We repatriated back about $1,000,000,000 leaving us $1,500,000,000 of obligations in Europe.

Mr. TOWERS: Yes.

Hon. Mr. McLEAN: In other words, we owe Europe about $1,000,000,000?

Mr. TOWERS: That was the United Kingdom.

Hon. Mr. McLEAN: That was the United Kingdom. We have an obligation of $500,000,000; and after we repatriated the securities for that half billion, our only obligations to Europe would be about $1,000,000,000.

Mr. TOWERS: Yes, with the United Kingdom.

Hon. Mr. MCLEAN: With the United States our understanding is practically the same as it was before the war as far as debts are concerned; and with the resources you now have, it offsets the increase in debts over there?

Mr. TOWERS: Yes.

Hon. Mr. MCLEAN: In the early days of the board there was only a short time given for an investor here in Canada who sold his securities in the United States. He had to reinvest within a certain time, or else turn the proceeds over to the board.

Mr. TOWERS: Yes.

Hon. Mr. MCLEAN: That is where probably most of that $360,000,000 comes from in your statement here, representing securities sold in the United States, for which we received American funds.

Mr. TOWERS: I should think that a substantial portion of it represented sales where the investor did not, in fact, desire to reinvest.

Hon. Mr. MCLEAN: That of course was invested probably at 3 per cent or 4 per cent against treasury bills or perhaps $\frac{1}{2}$ of 1 per cent to-day. As far as the income of the country goes, that $1,500,000 of liquid assets is a luxury all right; but in private enterprise it was invested at a higher rate.

Mr. TOWERS: To the extent that the investments were made by a private investor. He certainly did not, in general, go in for that form of securities; that is right.

Hon. Mr. MCLEAN: Yes; the average depreciation of securities during the last three or four years has been about 33 per cent. Had those securities been retained by private investors, they would get no doubt somewhere nearer the average. This clause 43 about which there has been some discussion, is that something new or something which is carried on from the order in council?

Mr. TOWERS: It is carried on from the order in council.

Hon. Mr. MCLEAN: That is incorporated in the act with something that has been there; this is the first time it has been in the act?

Mr. TOWERS: Yes.

Hon. Mr. MCLEAN: The experience of the United States in opening up the income tax has not been any too good; not for the income tax, although it may have been good for some other departments; that is the information I have received. Would there be any special desirability to have a representative of industry on the board? We have voted very large loans to re-establish this foreign trade, to a great extent moneys raised by the taxpayers. We put that money in the pot, so to speak, and we hope to re-establish trade. Now these debtor nations do not take their money in victory bonds; they take commodities, and those commodities are produced by industry. Industry has an estate in foreign trade; and we who represent the people or the taxpayers vote these sums of money for the foreign trade stream. We have the responsibility there. Would there by any special objection, or could we consider it as government policy, to have a representative of industry sitting on the board, representing those who produce the real wealth? We do the bookkeeping and the other branches of it, but those who produce the real wealth—would there be any objection to their having a representative?

Hon. Mr. ABBOTT: I think the answer to your question is that the Foreign Exchange Control Board is solely an administrative body established for the purpose of carrying out the foreign exchange control policy which is laid down from time to time by the government, and therefore the only appropriate officials to perform purely administrative functions of this kind are government officials. Your public servants are responsible to the government of the day and in addition, of course, there is the further point that in carrying out its duties the board must necessarily have before it information as to the exchange position and other information which is not currently available to the public generally; and it would not be proper that such information should be available to certain members of the public by virtue of their being members of the board, since it would place them in a privileged position with respect to their competitors.

Hon. Mr. McLean: Of course anything in the nature of a government board would be subject to the rules of secrecy. But in my experience I have found that sometimes government boards do things without realization of the repercussions through the country, whereas practical businessmen would know how they were going to work out. I think if we had more men of practical business experience on government boards it would help.

Hon. Mr. Abbott: I agree. I think the government should consult the industry and business of the dominion to assist it in determining policy; but I do not believe that an administrative body of this kind, administering government policy, can properly be composed of other than public servants.

Hon. Mr. McLean: Section 34 refers to managers of companies established outside of Canada. Now, managers may have no stake in the capital of the business, only a nominal holding of one share. Under this section a manager might find himself in an embarrassing position. That section should either be clarified or taken out of the bill.

Mr. Towers: Can you say why that is in the section, Mr. Tarr?

Mr. Tarr: No, I cannot.

Mr. Towers: I must say I cannot answer your question, Senator McLean, but I hope to be able to do so.

Hon. Mr. McLean: It strikes me that the manager of the business would be just a paid servant, and he might be put in a very embarrassing position if asked to do the things specified in the section.

I think it was mentioned by you, Mr. Towers, that if securities were left in private hands it might be difficult to take them over, they might be sold when the market was not in a good position to absorb them. Did not the United Kingdom gradually lower their restrictions because it was ruining companies?

Mr. Towers: The United Kingdom took over those securities from their owners and then sold a certain number in the open market.

Hon. Mr. McLean: I appreciate the remarks of Senator McGeer. Mr. Henry Wallace, the Secretary of Trade and Commerce in the United States, is an outstanding liberal—with a little "l". It seems to me, Mr. Towers, that the statement you gave of how our trade is going out of balance is something that it would be well worth our while to take up with Washington. The Americans want to sell to us; we want to sell to them. Foreign trade, as I have always understood it, is a two-way street, and the more we keep it in balance the better it is for both parties. Foreign trade is done on a fairly narrow margin, and if trade between nations can be kept anywhere near balance without getting into debt on either side, it is certainly a great ideal to work towards. In the course of the small business I have had back and forth with the United States I have always found the officials at Washington extremely friendly towards Canada. If anything can be done at this stage, will you point out to the fellows at Washington that it is to their advantage as well as ours that this trade should be kept on an even keel?

The CHAIRMAN: Senator Roebuck?

Hon. Mr. ROEBUCK: Not at this late hour, but I will join in the discussion.

The CHAIRMAN: Senator Dessureault?

Hon. Mr. DESSUREAULT: No questions.

The CHAIRMAN: Senator Wilson?

Hon. Mrs. WILSON: No, thank you.

The CHAIRMAN: Senator Hayden?

Hon. Mr. HAYDEN: No questions, thanks.

The CHAIRMAN: Senator Sinclair?

Hon. Mr. SINCLAIR: I have a motion to offer, but I do not wish to proceed with it if any senator wishes to continue the examination.

I think the time has come when we might consider this motion:—

> That the Chairman be instructed to report back to the house that we have examined into the subject matter of the bill.

Hon. Mr. KINLEY: Mr. Chairman, I have a matter that I want to bring before the committee, and I should like to do it now.

The CHAIRMAN: We will suspend the motion.

Hon. Mr. KINLEY: Subsection 2 of section 2 reads:—

> The Board, may, by regulation, provide that lawful money of Newfoundland and securities issued by the government of Newfoundland or by any society, syndicate, company or corporation incorporated in Newfoundland, or if unincorporated, whose head office is in Newfoundland, shall be deemed to be "Canadian currency" and "Canadian securities", respectively, for the purpose of this Act.

I should like to ask Mr. Towers what he had in mind when that was drafted.

Mr. TOWERS: That is the way in which control was operated all during the war. It is rather an unusual situation arising from the fact that Newfoundland is served exclusively by branches of Canadian banks, and, as you know, they use Canadian currency in all its forms. So from a financial point of view Newfoundland is within the Canadian system of currency.

Hon. Mr. KINLEY: In that the Canadian banks control the situation?

Mr. TOWERS: In that the deposits of the people in Newfoundland are in terms of Canadian dollars, and the currency they have in their pockets is Canadian dollars. So it was necessary to operate the two controls in the closest and most complete co-operation. There is an exchange control in Newfoundland. We have no means of saying to the Newfoundland government what it should do, but there has been complete and absolute co-operation since the start of the war.

Hon. Mr. KINLEY: Will the Canadian banks in St. John and other ports in Newfoundland be agents of your control board, that is, authorized dealers?

Mr. TOWERS: They are authorized dealers of the Newfoundland Control Board. I do not think it is called a board, but whatever it is.

Hon. Mr. KINLEY: What you have in mind in this section is that there will be a free flow of money as between Newfoundland and Canada?

Mr. TOWERS: Absolutely.

Hon. Mr. KINLEY: There will be no restrictions?

Mr. TOWERS: None whatever.

Hon. Mr. KINLEY: How do you propose to control the situation in Newfoundland as to the Canadian banks? You stop the flow of notes from Canadian banks to other countries.

Mr. TOWERS: If there was a note flow to Newfoundland it would be perfectly all right, because it is not going outside the Canadian currency field. It is not costing us U.S. dollars.

Hon. Mr. KINLEY: I am an exporter of goods to Newfoundland, and I appreciate that it is very desirable to have Canadian currency there. May I ask what is our trade with Newfoundland? The balance is heavily in Canada's favour is it not?

Mr. TOWERS: Tht is my recollection, Senator Kinley.

Hon. Mr. KINLEY: There will be no permits necessary for sending money to Newfoundland?

Mr. TOWERS: No.

(The committee proceeded to discussion of the bill.)