BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date May 24, 1951

To Governor Eccles

From Arthur W. Marget

MESSAGE:

In accordance with your request, there is appended a draft letter to Senator Capehart.

awm

Attachment

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Message delivered by ____________

F.R. 468
Rev. 1/47

May 24, 1951.

Honorable Homer E. Capehart,
United States Senate,
Washington 25, D. C.

Dear Senator:

The question which you put to me, as I understand it is whether there is any truth to the suggestion that the Canadian dollar is at its present level, in terms of foreign exchange, as a result of operations by agencies of the United States Government.

I am able to state categorically that there is no truth whatever in such a suggestion.

The decision to abandon the old par of approximately ninety cents (U.S.) for the Canadian dollar was taken by the Canadian Government after consultation with the International Monetary Fund, whose rules require that any member proposing a change in exchange rates must submit such a proposal to the Fund before the action is taken by the country concerned. The United States Government is of course a member of the International Monetary Fund, and its representative in that organization participated in the discussion which preceded Canada's action in abandoning the old par. But once the decision was taken, the United States Government and its agencies have engaged in no operations of any kind designed to affect the foreign exchange value of the Canadian dollar.

As you know, the Canadian Government, in abandoning the old par, did not proceed immediately to establish a new par. Instead, it proposed to test the strength of the Canadian dollar by allowing market forces to operate upon its price in terms of foreign exchange.

This does not mean, of course, that Canada has abandoned foreign exchange control: although there are no restrictions on current trade, other transactions, including capital movements, are subject to regulation. But it does mean that the price, in Canadian dollars, at which the Canadian authorities will sell foreign exchange is not <u>fixed</u>, in the way it would be if a new par (of, say $1 Canadian = $1 U. S.) had been declared. Instead, the Canadian authorities, with due regard to the desirability of avoiding extreme day-to-day fluctuations in the foreign exchange value of the Canadian dollar, may sell foreign exchange at a price which, in their best judgment, is consistent with the fundamental market forces of supply and demand. It follows that, while the Canadian dollar has remained stable, de facto, within a range of around 94 to 95 cents (U.S.) to the Canadian dollar, it could, in principle, fall below that rate or rise above it. Which of these two things will happen will depend on the strength of the Canadian foreign exchange position. I can assure you again that the current foreign exchange value of the Canadian dollar is not the result of any operation by the U. S. Government or any of its agencies.

Sincerely yours,

M. S. Eccles.

AWM:dls