August 15, 1947

Files — Visit from Governor Towers of

Mr. Knapp — the Bank of Canada

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I received a visit yesterday from Governor Towers of the Bank of Canada. We had a broad discussion of current problems, but after awhile it emerged that the special matter on his mind was the Canadian dollar position and in particular the question of obtaining a loan in the United States. It will be recalled that in 1946 Canada had a deficit on current account with the United States of about 600 million dollars. This was financed as follows: 250 million dollars through net gold and dollar receipts from other countries (mainly the United Kingdom); 100 million dollars from capital inflow from the United States, and 250 million dollars through drafts upon Canada's gold and dollar reserves. Canadian reserves declined from about 1-1/2 to 1-1/4 billion dollars during the year.

For 1947 Governor Towers felt that the current account deficit with the United States might run as high as 1.2 billion dollars if no special measures were taken. I gathered that in his opinion not more than 400 million dollars of this deficit could be covered by dollar receipts from other countries and capital inflow from the United States, so that Canada would have to use up 800 million dollars of its remaining gold and dollar reserves this year to finance such a deficit. In fact, according to our estimates, Canadian gold and dollar reserves declined by about 600 million dollars in the first half of the year alone.

The dollar receipts from other countries are mainly from the United Kingdom, and Governor Towers explained the Anglo-Canadian arrangements to me in some detail. It appears that since the first of this year the Canadians, by agreement with the British, have restricted British drafts on their Canadian line of credit and have required part of the net current account deficit of the United Kingdom with Canada to be paid in dollars. During the early months of the year, such payments amounted only to 10 million dollars a month but they were stepped up this spring to 20 million dollars a month, and most recently to about 30 million dollars a month. If continued at this rate for the rest of the year, the Canadians would receive about 275 million dollars from the British during 1947. However, the British have entered into no firm commitment for the rest of the year and have warned the Canadians that dollar payments may have to be reduced or limited.

Governor Towers discussed the measures which might be taken to reduce the deficit with the United States. He did not see much room for

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increasing Canadian exports to this country, and on the import side felt that no more than 400 million dollars could be saved by the most drastic elimination of luxury consumer goods and pleasure travel. This would still leave Canada with a huge deficit in its current account with the United States, even though it would reach equilibrium or even a surplus position in its balance of payments with the world as a whole. Governor Towers felt that in the long run this problem could only be solved if the foreign countries with which Canada has an export surplus (especially the United Kingdom and Continental Europe) could pay Canada in dollars or other convertible currencies.

For the time being, however, Governor Towers indicated that Canada would want to meet the problem by borrowing in the United States. I asked him if he had in mind a figure of around half a billion dollars, but he indicated that 750 million dollars was the amount which might be sought. I asked Governor Towers what terms he thought Canada might be able to get in the private capital market but his reply was that the amount needed was greatly in excess of anything that the private capital market could be expected to supply.

We then reviewed the possible sources of public loans: the Export-Import Bank, which now has over 800 million dollars of free lending authority but which must reserve much of these funds for contingencies in Europe and elsewhere; the International Bank, which is even more hard pressed for funds to meet demands elsewhere; and the U.S. Stabilization Fund, which now has only small uncommitted lending authority. We also discussed the procedure which would need to be followed if a special Canadian loan proposal were to be presented to the next session of Congress. This part of the discussion, however, came to no firm conclusions.

I made a passing reference to the large volume of private Canadian investments in the United States (we estimate these to be around 1,200 million dollars, including 600 million dollars of readily marketable securities), but Governor Towers showed no inclination to pursue this subject.

I have not had an opportunity to give this subject any further study or consideration, but assuming that Canada does need 750 million dollars during the next year, I wonder whether this amount could not be raised on reasonable terms in the private capital market with the aid of interim participation by the Export-Import Bank, the International Bank, or both.

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