BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date December 2, 1947

To Chairman Eccles

From Mr. Knapp

Subject: Summary of material contained in letter (with enclosures) from Mr. Gordon, Bank of Canada.

The following is a brief summary of the material contained in the letter (with enclosures) which you received recently from Mr. Gordon of the Bank of Canada. Also attached is a draft reply to Mr. Gordon for your signature.

Official gold and dollar reserves of Canada amounted to "approximately 500" million dollars on November 13, having fallen from 1,245 million dollars (or by 745 million dollars) since the first of this year. Canada's balance of payments on current account will be roughly in equilibrium in calendar 1947, but about 600 million dollars of its exports will yield no foreign exchange since they will have been financed by grants to UNRRA and credits to foreign countries totalling over 600 million dollars. In addition there has been a net outflow of private American capital from Canada "in connection with maturing obligations in the United States".

To curtail the drain on its reserves, the Canadian Government has instituted (under the authority of the Foreign Exchange Control Act):

1. Import prohibitions on semi-luxuries such as typewriters, radios, refrigerators, washing machines, and furniture;

2. Import quotas applying to (a) fresh and canned fruits and vegetables, (b) textile products other than raw materials and yarn, (c) leather and leather products, and (d) numerous finished goods including clocks, sporting goods, cutlery, toys and games, etc. Automobiles have been placed temporarily on the list of prohibited imports, but will be shifted to the quota list when details have been worked out.

In form, both these measures are non-discriminatory. The Canadians frankly admit, however, that the effect will be discriminatory against the United States. Import prohibitions have been applied on goods normally imported chiefly from this country. Also the import quotas allocated to different countries are based on their share in the Canadian market in 1937-39, with the result that in general imports from the U.S. will be restricted while imports from non-dollar countries will be free to expand.

3. In addition, the Government has taken power to license imports of capital goods, but the extent to which this authority will be used has apparently not been determined. Mr. Gordon remarks in his letter that Canada hopes that "our natural resources

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and manufacturing industry can be developed in a manner that will permanently reduce the undue lack of balance in our trade with the United States", and points out that in the administration of import control over capital goods "favorable consideration will be given to new developments which will contribute materially to our earnings of U.S. dollars or to saving of U.S. dollars through utilization of our natural resources".

Mr. Gordon estimates that savings from these import restrictions may amount to 275 million dollars a year.

4. U.S. dollars for pleasure travel in this country will be rationed to 150 dollars per year plus transportation expenses.

Mr. Gordon mentions the 300 million dollar credit obtained from the Export-Import Bank and says that steps are being taken to investigate the possibilities of refinancing this credit in the private market. He also expresses the hope that "dollars appropriated for implementation of the 'Marshall Plan' will be used to help maintain the flow of Canadian supplies to Europe".

Mr. Gordon makes only the briefest mention of the program for stimulating gold production, stating that this is fully dealt with in the speech by the Minister of Finance.

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