At a conference between the Federal Reserve Board and certain representatives of the Canadian Bankers Association held in the office of the Governor at 11 a.m., on Monday, October 29,

PRESENT:

Mr. Harding, presiding, Mr. Miller,

Mr. Delano, Mr. Willis, Secretary.

Mr. Hamlin,

Mr. Warburg,

Present also, Mr. Albert Strauss, representing the Treasury Department.

Present also:

Sir Vincent Meredith, Bank of Montreal,
Sir Edmund Walker, Canadian Bank of Commerce,
Sir John Aird, Canadian Bank of Commerce,
Mr. E. L. Pease, Royal Bank of Canada, and
President Canadian Bankers Association.
Mr. Clarence Bogert, Dominion Bank of Canada.
Mr. H. M. Richardson, Bank of Nova Scotia.

Mr. Pease stated that the purpose of the interview was that of stating the difficulties of carrying out the proposed purchase of Canadian wheat on behalf of the British Government under the circumstances produced by the present gold embargo. It was necessary that the Canadians get a return of their funds from time to time or they "could not turn around". The course of exchange had recently declined from par to one percent on

New York from Canadian points. If the Board could release a small amount of gold it would stabilize exchange. The Canadian bankers wanted $50,000,000 released for this purpose. This amount would not be retained in Canada but would be sent back because the Canadians had an unfavorable trade balance. Thereupon Mr. Pease filed with the Board a statement as follows:

MEMORANDUM ON UNITED STATES EMBARGO ON THE EXPORT OF GOLD.

1. The relation between the cost of New York funds in Montreal and gold imports to Canada from the United States and gold exports from Canada to the United States is fairly constant. Taking the year 1913 for example, in the first three months of the year New York funds reached a premium of 3/32, 5/64 and 5/64 respectively. During that period, to correct this somewhat unusual premium, approximately $7,000,000 more gold coin and gold bullion was exported from Canada to the United States than was imported from the United States to Canada. This brought down the rate in the months immediately succeeding.

Towards the close of that year (1913) New York funds went to a discount in Montreal in the last three months of 5/64, 6/64 and 3/64 respectively. The imports of gold from United States to Canada in excess of exports of coin and bullion from Canada was in consequence approximately $5,500,000.

In the first three months of 1914 New York funds were constantly at a premium in Montreal, the maximum each month being 5/64. The result was that there was an export from Canada of gold coin and bullion to the United States, chiefly coin, in excess of counter shipments of approximately $16,000,000.

Coming to the war period, in the latter part of August, 1914, New York funds went to a 2% discount and for September and October the maximum discount was 1½% and 7/8% respectively. The consequence was that approximately $18,000,000 more gold was imported from the United States into Canada than there was of gold coin and bullion exported.

2. One conclusion may, therefore, fairly be drawn from the tabulations on which the foregoing is based: namely that when the cost of New York funds in Montreal departs from normal it has forthwith been corrected in the past by the import or export of gold, as the case may be.

3. From the total of the tabulations of gold imports from, and exports of gold to, the United States herewith submitted it is clear that Canada is the debtor nation in the ordinary course of business to the United States. The figures for the six and three-quarters years beginning January, 1911, and ending September 30th, 1917, are as follows:

| | |
|---|---|
| Exports from Canada of bullion produce of the mines of Canada | $ 92,367,555 |
| Exports of gold coin and foreign bullion | 81,770,646 |
| TOTAL EXPORTS OF GOLD FROM CANADA | 174,138,201 |
| Imports of gold from the United States to Canada during the like period | 120,383,219 |
| EXCESS of gold exports from Canada to the United States over gold imports | 53,754,982 |

4. Canada's adverse trade balance with the United States for the three years beginning August, 1914, and ending July 31st, 1917, is $794,624,350. This being the case it is obvious that unless adjusted in other trade ways gold will flow back from Canada to the United States just as the figures for the six and three-quarters years mentioned in "3" conclusively show. In other words Canada, through the ordinary course of business is constantly losing gold to the United States and even if there are temporary importations to adjust exchange rates, in the long run the United States gets not only what comes back temporarily but more with it. The United States,

therefore, need not fear a release of gold to Canada.

5. If there is no import of gold permitted and New York funds go to a substantial discount it will of course react seriously on the trade with the United States, impeding the importation into Canada of United States materials and supplies. To a corresponding extent, trade conditions in the United States will be hampered and there will be in consequence a very material reduction in the commerce between the two countries on necessaries from the war standpoint. Canada's food stuffs will not be imported except at a substantial loss due to adverse exchange.

6. Under the present conditions Canada as well as the United States have a common object, the successful prosecution of the war. All the resources and activities of both countries are alike pledged to that end. In order that there may be the fullest use made of the resources of Canada in the contest it is absolutely necessary that the business of supplying munitions, the equipment and provisioning of troops be not interfered with because of crippled trade relations with the United States. If these relations are hampered, to that extent will the contributions of Canada be lessened and the burden upon other allies increased.

Discussion of the statement followed and the fact was brought out that only during the wheat moving period is gold needed. At that time it is needed in order to enable the banks to obtain dominion notes on the present basis of reserve requirements behind such notes.

Mr. Pease called especial attention to the fact that the cause of the trouble was found in the fact that there had recently been large accumulations of balances in New York. He said the note circulation had increased in Canada about

$60,000,000 since the beginning of the European War and Government notes about $70,000,000. Deposit liabilities had increased $500,000,000. The total Canadian bank note circulation was now $177,000,000, against which $60,000,000 gold was held in the vaults. The so called "excess note issue" (part of the $177,000,000 referred to) is $60,000,000. Mr. Warburg called attention to the fact that the whole purpose of current financing is that of simply getting a maximum strength through joint action and producing the greatest results for the benefit of all.

Sir Edmund Walker replied that the real problem at present is that of furnishing a small amount of gold for the purpose of stabilizing a very great trade between the United States and one of its best customers. Governor Harding asked how far the Canadian bankers could go in issuing notes on their present resources. Mr. Pease replied that this depended upon the amount in the tills of the banks. Sir Vincent Meredith said the Canadian Bankers would be glad to hear of any proposition the Board might have to offer. To use U. S. currency in Canada at the present time would, however, be resented by the population or else would cause alarm.

Mr. Miller inquired whether anyone represented the

finance Minister of the Dominion, and Sir Vincent Meredith replied that the Committee was charged by the Finance Minister to work out the matter for him. The attached memorandum stating the views of the Canadian Government was then filed.

Mr. Pease proposed that some plan be worked out whereby shipments up to $50,000,000 should be permitted, the Canadians agreeing to return $25,000,000 on or before July 1, 1918. After further discussion it was agreed to meet again at 2.30 to decide upon some tentative plan.

At 12.15 the conference adjourned.

APPROVED:

H Pokerlowe
Secretary.

Chairman.