

# FEDERAL RESERVE BOARD

366

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-6295

April 23, 1929.

SUBJECT: Canadian Currency.

Dear Sir:

Under date of September 14, 1928, the Department of Commerce wrote the Federal Reserve Board calling attention to the spirited complaints by Canadians against the attitude of Americans in certain sections of the United States when tendered Canadian currency in payment of hotel bills and for supplies purchased, and asking whether machinery could not be set up to put Canadian bank notes at or near par in this country. With the letter from the Department of Commerce was enclosed a memorandum from the Chief of the Finance and Investment Division commenting on the charges made on currency by banks and merchants in various sections of the country. A copy of the letter and memorandum is enclosed.

Following the receipt of this letter, the Board laid the matter before the Governors at their Conference in Washington in October, 1928, and in accordance with the agreement reached at the Conference, as you were advised on December 10, 1928, appointed a committee consisting of the Managing Directors of the Buffalo, Detroit and Seattle Branches and Deputy Governor Moore of the Federal Reserve Bank of Minneapolis to study the problem. At the same time the Board stated that the matter would be made the subject of special communications to the Governors of those Federal reserve banks having representatives on the committee.

The Board has continued to give this matter consideration since the Governors' Conference with especial reference to the service which the Federal reserve banks might render in this connection; but it has not yet requested the Committee to begin a study of the question. It is clear to the Board that the Federal reserve banks should not absorb any material expense in this undertaking, as it is not a matter over which they have any control or one that is necessarily involved in the functioning of the banks in accordance with the provisions of the Federal Reserve Act. The Board is inclined to believe, however, that a substantial service would be rendered to American business men if some means were provided whereby Canadian currency spent in this country could be redeemed at a minimum of expense and at a cost which would be known by the merchants in advance. The Board understands that expenditures in this country by Canadian tourists amount to about \$75,000,000 a year.

One proposal for handling the situation which has been suggested to the Board seems to have considerable merit and the Board would like to have your advice as to whether this proposal, as outlined below, would work out satisfactorily in your district and whether you would

be willing to cooperate by accepting Canadian currency under the conditions specified.

The plan contemplates that the Federal reserve banks shall accept Canadian currency from member banks along with other currency shipments and that they shall pay member banks at par for such currency, less the expense of effecting its redemption, i.e., after deduction of shipping charges and loss of interest on the currency in transit and making allowance for the discount or premium on Canadian exchange. This plan also contemplates that the Federal reserve banks would notify member banks of their willingness to accept Canadian currency along with other currency and that the Federal reserve banks would assume shipping costs the same as they do on United States currency, but that credit would be given for the Canadian currency at par less a specified discount intended to cover solely the cost of redemption. If the Federal reserve banks could render a service of this kind, it is the opinion of the Department of Commerce and also of the Federal Reserve Board that they would not only help to remove the wide-spread irritation and resentment of Canadian tourists over the unreasonable discount now sometimes charged on their currency but would be rendering a real service to the business men in their districts.

It will be appreciated, therefore, if you will advise the Board whether you would be willing to undertake this service, and if so, how you would expect to dispose of the currency and what discount you would expect to have to charge member banks normally in order to cover your expenses in connection therewith. If this plan should be adopted, would it be better to determine the transportation expenses and then have a fluctuating rate dependent on the Canadian exchange rate, or to have a flat rate which would apply throughout the year and be so fixed as in the long run to approximately offset your expense?

Whether it will be necessary for the Board to request the committee to study this question will depend somewhat on the replies received to this letter, but no further action will be taken by the Board in this connection until after the replies from all Federal reserve banks are received and analyzed.

Very truly yours,

Edmund Platt,  
Vice Governor.

LETTER TO ALL GOVERNORS.

DEPARTMENT OF COMMERCE  
Bureau of Foreign and Domestic Commerce  
WASHINGTON

368

September 14, 1928.

In reply refer to 24

The Honorable  
Roy A Young, Governor,  
Federal Reserve Board,  
Washington, D. C.

My dear Governor:

As the enclosed memorandum by our Finance Division shows, there is widespread irritation and resentment in Canada against the attitude of Americans when tendered Canadian currency by our Canadian visitors. In many cases Canadian banknotes are accepted in this country at a discount of five, ten and even twenty per cent; and in other cases they are rejected entirely as if they were "bad money". Quite apart from the embarrassment, inconvenience and pecuniary loss to which our Canadian visitors are thus put, it appears that their national pride is involved. Canadians are justly proud of their high national credit and of their excellent banking system. They point out that in Canada American money is nearly everywhere accepted at par, and they feel that our discount upon their currency is unfair and inexcusable. The whole situation is singularly unfortunate.

In 1927 Canadian tourists spent about \$51,000,000 in the United States, according to the estimate in our "balance of international payments." The official Canadian estimate was considerably higher, and the traffic is increasing rapidly. I feel that our nation can well afford to encourage this traffic and that nothing should be overlooked to make the stay of our Canadian visitors pleasant. In that spirit I am asking your help in solving this extremely unpleasant exchange situation.

Several of the representatives of this Bureau (in Canada and in our district offices in this country) have suggested that the Reserve Banks might easily set up machinery that would put Canadian banknotes at par in this country and at the same time speedily withdraw them

from circulation here. I wonder if something of this kind cannot be arranged between the northern Reserve banks and their Canadian correspondents. As I understand it, the expenses of shipping currency between the member banks and their Reserve Bank (both to and from) is borne by the latter; so the member banks would be put to no expense -- and to but very little inconvenience -- in accepting Canadian bills at par, if the Reserve Bank would accept them at par. They would simply include the Canadian bills in the same packet with the Federal Reserve Notes they are now regularly shipping to the Reserve Bank.

Perhaps this is much less simple than it appears to an outsider like myself, but I should greatly appreciate hearing from you whether something of this kind cannot be accomplished. I rather think we can ignore Canadian coins, as they would involve very much smaller amounts and as the machinery for handling them would cost more.

Cordially yours,

Julius Klein,  
Director.

Inclosure:

DEPARTMENT OF COMMERCE  
Bureau of Foreign and Domestic Commerce

WASHINGTON

September 11, 1928.

In reply refer to 24

To: Secretary Whiting,  
From: Finance and Investment Division,  
Re: Heavy Exchange Charges on Canadian Currency.

On August 2, Commercial Attache Meekins, Ottawa, reported to the effect that he had received several spirited complaints by Canadians against the attitude of Americans when tendered Canadian currency by visitors from Canada. The Commercial Attache mentioned that a great deal of irritation and friction results and that in many instances the expenditures of Canadian tourists in this country are curtailed. He urged action to correct this situation.

In order to get information upon which to base action, a circular letter was sent to several of the District and Cooperative Offices of this Bureau located nearest to the Canadian frontier, and to our foreign offices at Montreal, Toronto, Vancouver and Winnipeg. A summary of the information thus obtained follows:

THE ATTITUDE OF CANADIANS

Ottawa:

An alderman at Ottawa complained that after spending about \$150 of American currency in a department store at Philadelphia, he requested the store to exchange a relatively small sum in Canadian banknotes, at the current rate of exchange. The store refused. Friends of the alderman have complained against similar experiences at "Cleveland, Buffalo, Rochester, New York and other centers".

What seems to rankle is that American currency (even coins) is freely accepted at par throughout Canada. Canadians are justly proud of their excellent banking system and of their high national credit. Their national pride is involved. It is not wholly a question of personal inconvenience and pecuniary loss.

Winnipeg:

"It is quite true that there is widespread irritation in Canada on account of the refusal by merchants and others in the United States to accept Canadian currency at par or at a reasonable rate." Canadian motorists complain that in the smaller American cities they have difficulty in exchanging Canadian banknotes, even at the banks, which exact a discount of 5 to 10 per cent. "It is short-sighted to take advantage of the extremities of visitors for the sake of a few dollars of immediate gain."

The effects of the irritation among Canadians over this difficulty are largely intangible. People who have taken a trip in the United States, and who have been charged ten per cent discount on their Canadian currency, come back and tell all their friends about it. The narration of these incidents provokes irritation against the United States generally. (Trade Commissioner Richards).

Montreal:

The fact that Canadians in the United States are unable to use their currency freely is without doubt a source of irritation.... The heavy exchange charged even by first-class hotels is annoying to most Canadians.... Often the manner of our people in rejecting Canadian money makes the Canadian feel that he is trying to pass bad money off on them...Canadians are proud of their currency since there is no question as to its soundness.... Any losses in exchange would be more than made up in profits from sales to Canadians. (Assistant Trade Commissioner France).

Vancouver:

The fact that Canadian currency is not acceptable to American merchants probably hurts the pride of some of the Canadian tourists.....but the complaints come mostly from the less intelligent class. (Assistant Trade Commissioner Probert).

THE PRACTICES IN CERTAIN AMERICAN CITIES

Columbus, Ohio:

"An investigation shows that business houses and hotels accept Canadian currency at eighty cents on the dollar." (Columbus Chamber of Commerce).

Keokuk, Iowa:

"Very little Canadian money is seen here...I congratulate

you upon having the foresight to take this matter up; for we on this side of the world's largest unprotected boundary should do everything possible to retain the friendships, business and personal, of our Canadian friends." (Foreign Trade Secretary Holmes, Keokuk Chamber of Commerce).

Chicago:

"The report that there is widespread resentment in Canada on this account is no doubt correct. It is unfortunate that such a situation exists, and I believe it would be very much worthwhile trying to solve the problem.

The discount charged by small banks ranges as high as 10 per cent on account of the "bother" of handling the currency. I believe it is safe to say that the larger stores and hotels accept Canadian currency at a discount of not less than 5 per cent; the small shops and hotels very often refuse to accept it at all, and so far as I know, none of the railway companies accept it. The larger banks charge from 1 to 2 per cent for bills and from 3 to 5 per cent for silver." (District Office Manager Roberts).

St. Louis:

One of the banks here buys Canadian bills at 90 cents and, when an amount has been accumulated, sends them by messenger to the American Express office and receives 96 cents. In the case of good customers, however, the 96 cents is paid outright by the bank.

One department store accepts Canadian money at par, although such transactions are few. Another department store refuses it and advises customers tendering it to have it converted at a bank. A third store accepts it at the prevailing exchange rate. The railroads uniformly reject Canadian money. The three or four principal hotels accept Canadian bills dollar for dollar and take any exchange loss at the bank. (District Office Manager Gaukel).

Rochester, N. Y.:

It seems to be the general practice of department stores, railroads and hotels to accept Canadian currency at par. Some of the banks do likewise, while others charge a discount up to 1 per cent. All those whom I interviewed expressed the hope that every Rochester concern would accept Canadian currency. I believe that best results would be obtained if the Federal Reserve Board could be induced to set up machinery for the free exchange of Canadian currency between the northern Reserve Banks and their Canadian correspondents. (Rochester Chamber of Commerce).

Boston:

The local shops, hotels, railways, etc., either reject Canadian currency entirely or accept it at the rate quoted by their banks, according to the policy of the individual organization. The majority of the railroads prefer not to accept it. The maximum discount charged by the banks is about 1/2 per cent.

Possibly some hotels and local shops could be influenced by the Chamber of Commerce to stand the loss in exchange; since the charge by the banks would be of no material consequence when compared with their profits and would probably be more than offset by increased good-will from Canadians.

American tourists who travel through Canada with American currency have exactly the same trouble. The charges made in that country often times run as high as 1 per cent. (District Office Manager Sweetzer).

Des Moines, Iowa:

The banks take all amounts from the merchants subject to the Canadian exchange quotations (usually a discount of about 2 per cent); they accept coins and small amounts of currency at their face value. Some of the smaller merchants object to Canadian quarters, in the belief they contain less silver. (District Office Manager Martin).

Detroit:

Most of us here ordinarily have about as much Canadian currency, both paper and silver, in our pockets as we have American; and it is accepted by everybody without hesitation. Most of the time we do not realize whether we have received American or Canadian money in change. Large Canadian bills, however, are accepted by the banks only at a discount ranging from 20 to 50 cents for \$100.

A banker here with whom I discussed the subject stated that he thought it would be an excellent thing to reach an agreement between our northern banks and the banks in Canada that Canadian money would be accepted both here and in Canada at par and that Canadian banks would give our banks 100 American dollars for 100 Canadian dollars. (District Office Manager Butler).

New York:

We believe that, if the Federal Reserve Board will arrange for the free exchange of Canadian currency between the



374

Reserve banks and their Canadian correspondents, much of the cause of the present criticism will cease. Most of the large banks here are buying Canadian currency at  $99\frac{1}{4}$ . Gutttag Brothers make a specialty of exchange in small amounts and are quoting  $99-3/4$ . (District Office Manager Hodgson).

Bridgeport, Ct.:

Our hotels accept Canadian money at 2 per cent discount. I believe the railroads do not accept it at their ticket offices and that a good many of the trades people feel too unfamiliar with it to accept it. (Manufacturers' Association).

Minneapolis and St. Paul:

Canadian silver is not welcomed by the Twin City banks, and we are informed that at one time the discount was as much as 10 per cent. There is now a uniform practice on their part to charge 2 per cent on silver and  $1/4$  per cent on currency. (District Office Manager Zwickel).

Portland, Oregon:

Local merchants generally accept Canadian currency at par, if a reasonable purchase is made. Exchange discounts are charged for large Canadian bills. The local Chamber of Commerce has had some discussion of the matter.

A system of par currency would be very quickly felt by merchants, hotelkeepers and others. We are very grateful for the opportunity of assisting, in any way we can, the freer travel in this area by Canadian tourists.

One of the banks, in discounting Canadian money, issues to the Canadian patron a small leaflet explaining that the charge should not be considered as a discount (since Canadian dollars are sometimes at a premium) but rather as a service charge to cover actual expenses in handling and shipping Canadian money. This tactfulness doubtless removes much of the "sting". (Portland District Office).

Dayton, Ohio:

We find that in no case is Canadian money rejected entirely. In almost every case, Canadian bills and coins are accepted at the same discount allowed by the banks, which averages around 1 per cent for paper money and 2 per cent for silver. It was the opinion of representatives of one of the leading banks that steps should be taken to induce the Federal Reserve Board to handle the situation, with the belief that this would create a better feeling among the Canadians visiting the northern part of the United States. (Chamber of Commerce).

(Signed) Grosvenor M. Jones, Chief,  
Finance and Investment Division.