

imbalances. The devaluation of the franc in August and the revaluation of the mark last October have been followed by a very substantial reflux of speculative funds from Germany. There has been a fundamental calming in exchange markets and international payments flows in recent months.

The dramatic increases in international trade and capital flows in recent years have been the mark of a growing economic interdependence in the world community. International monetary co-operation has continued to respond to the problems posed by this evolution. Five years of study and negotiations have resulted in approval of a new international reserve asset to supplement gold and U.S. dollars. The decision by the International Monetary Fund to activate U.S. \$9.5 billion in Special Drawing Rights during 1970-72 has helped to ensure that international liquidity will expand appropriately to support further growth in world trade and payments. The amount allocated to the 104 participants in the scheme on January 1, 1970, was \$3.4 billion, in proportion to their quotas in the IMF; an additional \$3 billion will be allocated in each of the next two years. The first year allocation represents a 4.5 per cent increase over present global reserves of about \$75 billion. The historic principle accepted in the new SDR scheme is that there should be deliberate control over the world's supply of reserves through a permanent new fiduciary system.

The price of gold in the free market has fallen back to the neighbourhood of the official price of \$35 an ounce from its earlier highs of more than \$43 an ounce, as a result of renewed confidence that the monetary price of gold will be maintained and because of the very high yields available on alternative investments. Late in 1969, arrangements for the orderly marketing of South African gold were agreed upon under the auspices of the IMF.

The fifth quinquennial review of quotas in the IMF has resulted in proposals to increase their total by 35.7 per cent. This will keep the financial growth of the Fund in line with the increasing demand made on it. The proposed individual quotas reflect members' changing positions in the world economy and maintain an undiminished share of quotas for the less developed nations in the IMF. (The Canadian quota will increase from U.S. \$740 million to U.S. \$1.1 billion.)

These responses to the problems of the international monetary system improve the prospects for orderly growth of trade. But the pressing problem of inflation remains. While this problem is now widespread, particular importance attaches to its solution in the United States.

In the United States last year the rate of growth of real output slowed down while that of prices speeded up; by the last quarter of the year real output had in fact ceased to grow while price rises showed no clear sign of slowing. In December 1969 the consumer price index was 6.1 per cent higher than a year earlier.

Most components of demand shared in the deceleration of real growth in the second half of the year. The spending of the U.S. federal government on goods and services levelled out, as a result of a reduction of expenditures related to the Vietnam war and of restrictions in other areas of the military budget. State and local governments have encountered increasing difficulty in borrowing. Residential construction expenditures have been declining since early last year,