

The same is true, in reverse, for the United States. As a net exporter of capital, the U.S. has a capital-account deficit, which in turn must be offset by a current-account surplus. A cut in the capital-account deficit is bound to be reflected in a cut in the current-account surplus. It is no accident, therefore, that the Interest Equalization Tax and other curbs on U.S. foreign investment have been reflected in a reduction of a normally large current-account surplus to one of far more modest proportions. Such a program, is, therefore, self-defeating: it fails to solve the problem for the U.S. at the same time that it creates further disequilibrium in the whole international payments system."

Before the Committee, Mr. McLaughlin contended that the explanation of Canada's problems and contradictions in its relations in this field with the United States resulted from Canada's adoption of a fixed exchange rate and that the only solution would be to adopt a floating rate of exchange for the Canadian dollar:

"Indeed, under present arrangements, if the U.S. authorities should become lax in their fight against inflation—and remember this is an election year—we shall have to import their inflation into Canada. There is no alternative, as we found back in 1950, except to float the Canadian exchange rate.

There is no reason to feel abjectly dependent on U.S. investment. This is just as important to American investors as it is to us. If restraints are applied by the U.S. government, our answer should be not to beg for concessions at the price of our economic independence, but simply to float the Canadian dollar exchange rate. The alternative, as we have found to our cost, is to lose our independence of action, especially in the crucial area of monetary and fiscal policy.

There is no reason to fear and resent U.S. investment in Canadian industry. Canadian corporations owned by Americans are still Canadian corporations, subject to Canadian law and regulation. We must, however, fight to the death the *real* problem of U.S. investment in Canada—the problem of legalistic border-hopping, whereby U.S. law and regulations are indirectly applied to American-owned Canadian corporations.

This brings us back to square 1. Only if we float the exchange rate can we bargain successfully on other issues, whether they are monetary and fiscal control of the economy, sovereignty over foreign-owned subsidiaries, sovereignty over the Arctic Waters or any other aspect of sovereignty. Only if we float the exchange rate can we bargain from a position of strength, not weakness.

So long as we maintain our present posture of indigent subservience to U.S. policy, based on the assumed necessity of American-granted 'concessions' under that policy, we can never achieve even a modest degree of economic, or indeed of political, independence for the country we are still allowed and are proud to call 'Canada.'"

Other witnesses have taken the position that Canada has profited from what has been in effect a single continental capital market in North America and by its close relationship with the United States, that the United States has been understanding in making exceptions for Canada from the restrictive provision of its balance-of-payments program and that while the restrictions which Canada has agreed to in turn have limited somewhat Canada's freedom of action, such restrictions have not been unduly onerous and, the rela-