exchange at the pegged price. The central authorities are required to buy all exchange that is offered in order to maintain the fixed rate, and they must find the Canadian dollars with which to purchase the exchange. Under the free rate system, on the other hand, the person who wants to buy Canadian dollars has to compete in the exchange market with other purchasers for a supply which is provided not by the central authorities but by corporations and individuals who wish for one reason or another to sell Canadian dollars and acquire foreign exchange. The pressure of market forces on the rate has the effect of bringing supply and demand into balance without, as I have already indicated, official intervention except as a contribution to orderly conditions. One effect of this mechanism is to ensure, in conditions of large capital inflow accompanied by pressure on domestic resources, that the inflow of capital either forces other capital out, through its effect on the rate, or takes the form of goods and services introduced into the Canadian economy from abroad as a supplement to Canadian savings.

The inflow of capital which has been such an important factor in post-war development in Canada has inevitably caused Canadians to think about its long run consequences, and some of its implications have caused a good deal of soul searching. One very natural concern is whether we have accepted capital from abroad in excess of our capacity to service it. The present burden of foreign debt, as measured by comparing it with gross national product or total exports, is less than it has been at many periods in our history. The increase in foreign debt has been much more than matched by an increase in national assets. Much of the investment has gone into things like petroleum and iron ore which either displace imports or result in exports.

Another question which is sometimes raised is whether the rate of development -- in which foreign capital has played an important role -- has been excessive, and whether progress at a somewhat slower pace -- and with a greater admixture of local capital -- might be preferable. I do not pretend to know the answer to this question. To a considerable extent the rate of progress is determined by the availability of resources, and the terms on which the public authorities or other owners are prepared to see them developed and used.

Another related subject of discussion is the extent to which American investment has tended to concentrate in certain resource and industrial sectors to the exclusion of Canadian participation. Since it is mainly direct investments which are referred to there is some fear that the exclusion of Canadian participation may be permanent in character. The increase in the foreign ownership of Canadian business has occurred in spite of a very high rate of Canadian savings and the fact that, unlike previous periods, Canadians no longer now invest to any considerable extent in U.S. equities. A number of steps have recently been taken which should have the effect of encouraging greater participation by Canadians in equity investment in Canada. For example, for some years now, Canadians have been permitted to claim as an abatement of their income tax liability an amount equal to 20 per cent of the dividends received from tax-paying Canadian corporations. Also, there has been some discussion as to whether the Canadian institutions which are the chief mobilizers of Canadian savings are playing as large a role as they might in providing equity capital to Canadian business. Finally, steps have been taken to revise certain of our arrangements regarding the taxation of dividends paid abroad in order to remove any possible tax disincentive that American companies owning subsidiaries in Canada might have to offering some of the stock in such subsidiaries for public subscription in Canada.

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