York that the Canadian Government could not (or would not) maintain the fixed exchange rate of 92½ cents U.S. or, alternatively, that the Canadian Government was about to impose foreign exchange restrictions in a last-ditch effort to defend that rate. In either eventuality, capital would have a strong incentive to escape from Canada while it was still free to do so at the current exchange rate.

In the second place, I drew to Mr. Fleming's attention a Canadian Press report, carried in yesterday's papers, of an interview with the Minister of Agriculture. It appeared on the front page of the *Globe and Mail* under the following headline: "Dollar at 90 Cents Urged by Hamilton." The report read in part as follows:

> Vancouver, June 8 (CP) – Agriculture Minister Alvin Hamilton said today he favors a further devaluation of the dollar to 90 cents in terms of U.S. funds.
>
> Mr. Hamilton told a press conference the present level of 92½ cents is in effect a compromise between Government members. He said some were in favour of 95 cents while others wanted it at 90 cents.
>
> The 90-cent level, he said, is a "natural peg which is defensible with our negative trade balance."

Even before this report was published, growing demands on the exchange fund had raised the possibility that if a serious outward movement of capital developed the Fund might not be able to meet all the demands made upon it in defence of the fixed exchange rate. In other words, it was not inconceivable that we would be faced, before June 18th, with a major financial crisis involving the possibility of a breakdown of the policy decided upon by Government and announced on May 2nd or the need to go asking for emergency financial help abroad wherever this could be obtained. The danger of such developments is, of course, much increased by a newspaper report indicating a serious cleavage within the Cabinet regarding the basic exchange rate policy.

A clarification of the Government's position will inevitably be sought. Such clarification can now only come from the Prime Minister. Moreover, a firm statement by him may help to avert a flight of capital, and the breakdown of policy that it might precipitate. Mr. Fleming requested that we should draft a statement for consideration by the Prime Minister. Following his request we have produced the following draft:

Draft Statement by the Prime Minister

> I have been asked whether the exchange rate for the Canadian dollar, which was fixed at 92½ cents in U.S. funds on May 3, is to be regarded as definitive.
>
> I wish to make it clear beyond question that the rate of 92½ cents in U.S. funds is definitive. We chose this rate after careful consideration of our balance of payments outlook. It has been legally established by the Government with the concurrence of the International Monetary Fund. No other rate and no other exchange system is being considered or will be considered by the Government.
>
> We are determined to maintain the 92½ cent rate against pressures of any sort. The very extensive financial resources available to the Government will be used to defend it. The Government is fully aware that its financial and economic policies basically determine the value of the Canadian dollar and the Canadian people can be assured that these policies will be of a character which involves no further reduction in the exchange value of the Canadian currency.