I propose now to say a few words about the behaviour of the Canadian dollar since official fixed rates of exchange were suspended in 1950. Since then, the policy has been to allow the rate to be determined by market forces, including of course the effects of fiscal and monetary policies, with official interventions limited to the maintenance of orderly conditions in the exchange market. Since 1952 the Canadian dollar has been quoted within a relatively narrow range -- from equality with the American dollar to 3 or 4 per cent higher. Perhaps the most conspicuous feature has been the rather paradoxical behaviour of fairly persistent strength in the face of substantial current account deficits. In fact, there have been several occasions when a rise in the Canadian dollar has coincided with an increasing current account deficit. This of course goes to demonstrate the important part that capital inflows have played all through the piece.

Nevertheless for a free rate the Canadian dollar has been remarkably stable. There is reason to believe that at most times short-term capital movements, such as changes in balances held in Canada and abroad and commercial payables and receivables, have contributed to this stability. These short-term capital movements have shown a tendency to be inward and so support the Canadian dollar when it was tending to fall and outward when it was tending to rise, thus limiting the rise. This is in marked contrast to our experience with a fixed rate of exchange under exchange control when short-term capital movements were a factor of instability. During the present year, however, there appears to have been an inward movement of short-term funds notwithstanding a rise in the value of the Canadian dollar. The need for liquidity and the rise in the volume of imports -- as reflected in an increase in outstanding payables -- seem to be the factors mainly responsible.

The Canadian exchange arrangements since 1950 have not been fully in accord with the provisions of the International Monetary Fund, of which Canada is a member and to whose work we continue to attach great importance. The Fund provisions provide for a fixed exchange rate with fluctuations limited to 1 per cent on either side of the par value. I would like to take this opportunity of saying that the attitude which the Fund has adopted towards the Canadian case has not been in the slightest degree doctrinaire or rigid. On the contrary it has been helpful and understanding. Without for a moment suggesting that what works well in Canada is necessarily suitable for other countries, the Fund has fully recognized the special aspects of the Canadian situation which have led to the present exchange arrangements.

In the conditions under which it has operated, the free rate has been a helpful factor in the efforts made to maintain monetary stability in Canada. Since 1950 Canada has offered many attractive fields for investment. Under fixed rate conditions, the government is required to buy all exchange offered, and if the inflow is large and rapid it is difficult to take offsetting action to prevent this leading to an increase in the domestic money supply. Sums which seem quite small in American terms may be extremely large for Canada, and large capital inflows in an economy at full stretch under fixed rate conditions have therefore a great inflationary potential.

The free rate provides some assurance that capital inflows will take place in real terms rather than in the form of money. Perhaps I might expand this latter point a little for it is an important one. Under fixed exchange rates a person can acquire a title to assets in Canada simply by selling foreign