of the increased price to Canadian-produced gold it would, of course, be necessary to prohibit the import of gold from outside Canada. However, if it is desired to influence the exchange rate by arbitrarily raising the price we pay for gold, then we must be prepared to pay the higher price to foreign gold. By offering a higher price in Canadian dollar terms than gold was really worth at the current exchange rate, we would certainly attract gold from the four corners of the earth. Anyone holding gold which he wanted to convert into United States dollars would sell it to us at the artificially high price and convert the Canadian dollar proceeds into United States dollars. This process would, of course, soon result in a fall in the value of the Canadian dollar to the level determined by the relationship between the arbitrarily fixed price of gold in Canada and the world price of $35 an ounce. In other words this proposal turns out, on analysis, to be a proposal that the Government of Canada should arbitrarily determine what the exchange rate should be from day to day or week to week by fixing the price it is prepared to pay for gold and standing ready to buy unlimited quantities of gold at that price. The Government does not seek any such arbitrary power. And I point out, moreover, that the procedure suggested would require us to use Canadian dollars raised from the Canadian people by taxation or by new borrowing for the purpose of adding to our reserves of gold.

These are five courses that are open to the Government. Notwithstanding long personal study of the problem I know of no others. I dislike the present high premium and I am well aware of the losses that it causes for some business interests. But I have been forced, reluctantly, to the conclusion that the disadvantages of the alternatives open to us outweigh the disadvantages of the premium.

It follows from the description I have given of the factors operating in the exchange market that borrowings in the United States by provincial and municipal governments and business have the effect of raising the premium. The sums they raise in United States dollars must be converted into Canadian dollars for use in Canada.

I may add that the premier of one province, which depends to a large extent on exports of its raw materials, recently asked the Federal Government to wave a magic wand and eliminate the premium on the Canadian dollar. I informed him that, as Minister of Finance, I am already holding about $1 billion United States dollars. He offered to buy them from me. When I asked at what price he immediately stipulated for a 10 per cent discount on the United States dollar. Consistency, what a gem thou art! I declined to take responsibility for driving up the premium on the Canadian dollar by accepting his terms.

The course of the exchange rate in the future will depend, as in the past, on the behaviour of the inward and outward movement of capital as well as on the course of our commodity service imports and exports. It will be symptomatic of internal and external conditions