

found that there was considerable pressure on the exchange reserves -- our reserves of gold and dollars -- as people abroad with short-term funds gambled on our ability to hold the rate at a fixed figure. When we adopted a free rate, we eliminated this one-sided gamble on the exchange rate. The swings in our exchange reserves have thus been reduced. In this situation, quite minor movements in the rate for the Canadian dollar have achieved the necessary adjustment; and our exchange reserves have fluctuated less than they did when we tried to maintain a given rate.

For a country like Canada, with a quarter of its income arising from foreign trade, this use of a free rate offers some pretty important advantages. From my point of view, it has the distinct advantage that it relies upon the impersonal and pervasive working of prices rather than upon direct controls. Direct controls sooner or later become disjointed and inequitable. It is better, when choosing policies for the long pull to avoid those devices which are likely to become inequitable and more and more difficult to administer. I should emphasize, however, that the reliance upon the general effects of a free exchange rate would have been impossible without the restraint upon inflation secured by balancing our national budget and by the modest debt reduction which we have been able to achieve. A free rate is no substitute for sound monetary and fiscal policy.

Just a word now about Canadian trade with the United States. As I said a moment ago, Canada is your best customer and the United States is our best customer. Really large-scale trade between our two countries has been going on for so long that we almost take it for granted. To take a few examples. You in the United States buy 90 per cent of our newsprint exports, 80 per cent of our wood-pulp exports, 60 per cent of our asbestos exports and half of our non-ferrous metal exports. In turn, Canada buys from the United States a very large portion of its imports of consumers' and producers' manufactured goods. We import fruit and vegetables from you during certain seasons and we buy most of our cotton from your Southern States. Neighbours usually do a good deal of trading with each other, but this trade between Canada and the United States is the biggest two-way trade between two nations anywhere in the world.

It is clear that the trade between our two countries is of great importance to each of us. We sell you more than we sell to all the countries of the British Commonwealth and of Latin-America and Europe -- more than the total Canadian exports to all these markets. We buy from you more than we buy from the other nations of the British Commonwealth, from Latin-America and from Europe. You sell us more than you sell the United Kingdom, Mexico, Japan and Brazil -- your next four best customers.

Canada almost always has a deficit on its trade with the United States. When there was worldwide convertibility of currency we could readily convert our surplus with other countries by selling those foreign currencies we had earned and paying our deficit with the resulting dollars. Sometimes, of course, we financed our deficit with you by borrowing in the United States. Very often the actual sequence of events was the other way around. Individual Canadian businessmen