tion for a Canadian undertaking of the same kind regarding the level of Canadian reserves. Since it was not considered desirable to rely too heavily on general monetary and fiscal measures to control the inflow of capital, alternative techniques involving the repatriation of outstanding Canadian securities in the United States would be used if necessary.

The second important measure was a voluntary ceiling on direct investment by United States corporations. Vigorous representations were made by the Canadian authorities that the application of this guideline to Canada was inappropriate but after consideration, the United States authorities ruled that no exception could be made to the guidelines if they were to be effective in meeting the United States aims of their general balance of payments program.

This resulted in widespread concern in Canada and the subject was discussed in March of 1966 by the Joint Canada-United States Ministerial Committee on Trade and Economic Affairs. Later, the Secretary of State for External Affairs reported to the House of Commons that the United States members made clear that the United States government was not requesting United States corporations to induce Canadian subsidiaries to act in any way that differed from their normal business practices as regards repatriation of earnings, purchasing and sales policies, or their other financial and commercial activities. This served effectively to moderate the potential consequences of the program for the Canadian economy. The statistics show that Canada's international transactions have on balance contributed strength to the United States balance of payments position. The difficulties which have been experienced in adapting the United States measures to Canada's special relationship are in some sense a reflection of that relationship.

In his evidence before the Committee, Mr. W. Earle McLaughlin described in the following terms another crisis which developed as a result of Canada's dependence for capital upon the United States:

> "The second actual exchange crisis since the fixing of the Canadian dollar's parity in 1962 occurred in January, 1968. This crisis, based on a complete misreading of the market by speculators and others, who paid dearly for their mistake, led indirectly to further inhibitions on Canadian economic policy. Since the crisis was triggered by a gross misinterpretation at home and abroad of the effect on Canada of U.S. mandatory capital-investment guidelines announced on January 1, 1968, the Canadian policy reaction was again to seek a special exemption for Canada. As usual, the special exemption carried its own special price tag, this time in the form of guidelines imposed by the Canadian government but dictated by the United States government, intended to prevent Canada from becoming a "pass-through" from the United States to third parties in the international economy.
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> Two of the three guidelines, applied specifically to the chartered banks, though necessarily clumsy, are at least relevant to the problem. The third guideline prevents Canadian banks through their U.S. agencies from taking U.S. dollar deposits domiciled outside the United States from U.S. residents above a base figure, even if the deposits are re-lent to other U.S. residents! It is, however, quite all right to re-lend these deposits to Canadian residents. This guideline clearly has nothing to do with the real problem posed by the U.S. balance-of-payments deficit. It is far easier to explain as a retaliatory measure against an equally iniquitous Canadian failure to allow agencies of foreign banks into