

I therefore told Mr. Fowler, the Secretary of the Treasury in the United States, when I was Acting Minister of Finance, that the Canadian Government would be prepared, if necessary, to buy outstanding Canadian securities held in the United States to offset any excess flow of U.S. capital to Canada, and thus to maintain the net flow of capital at the level required to finance our balance-of-payments deficit. Instead of adding to U.S. assets in our exchange reserves, we should be reducing Canada's liabilities in the United States. Conversely, if the volume of borrowing by other Canadians were not sufficient to meet the balance-of-payments needs, the Government would itself arrange to borrow in the United States. In this way, our reserves could be maintained at around the desired level without interfering either with trade or with the normal use of the U.S. long-term capital markets by Canadian borrowers. I also agreed that, while our reserves must be expected to fluctuate from month to month, we should regard it as appropriate that such fluctuations take place around a level somewhat lower than the mid-1963 figures, say, approximately \$2,600 million (U.S.).

Should it be necessary to borrow in the U.S., I should foresee no great difficulty in obtaining moderate amounts as and when we require them. On the other hand, I believe that there are sufficient Government of Canada securities held in the U.S. market to enable us to do what might be required in buying Canadian securities in the U.S. by using the authority to purchase our own securities that is already granted in the Financial Administration Act.

I should like to tell the House that, since the beginning of 1966, we have purchased about \$40-million worth of our outstanding U.S. bonds that were held in the United States. Our purchase of these securities was consistent with the plan I have outlined but was also intended in considerable part to improve the market for the sale of other Canadian issues in the United States this month, when there appeared likely to be a large volume of such issues scheduled for delivery.

The second important measure adopted by the U.S. in December was a voluntary ceiling on direct investment by United States corporations, of whom about 900 will be asked to report regularly on the progress of their co-operation with the United States administration. The guideline, and I will not take time now to give details, does not stipulate how any company shall distribute its direct investment among geographic areas. This is a global restriction. It does not apply to Canada particularly; it applies to the world. Where it is applied is a matter for the business organization itself to decide. Canada is not exempted from this ceiling or guideline as it was from the previous guideline applying to direct investment.

As soon as we learned of the new United States guidelines for direct investment we told them that, while it was very hard for us to assess what its effects on Canada would be because so much depended on the decisions of the businesses, we thought it would cut down some of the flow of such capital to Canada. In so far as it worked in reducing such flow of such capital direct investment it would simply mean a greater need for new issues of Canadian securities in the United States under the arrangements and exemptions