That's the world picture. As I have already mentioned, our bilateral deficit in our dealings with the United States over the past few years has been around $2 billion. Inflows of U.S. capital have very rarely come close to covering this deficit. At the same time, our surplus with the rest of the world has been in the neighbourhood of $1 billion. In short, to date you have outperformed us in our bilateral dealings. That is neither surprising nor unexpected. I do not believe this means however, that we should attempt to restrict U.S. sales to Canada. The answer, I firmly believe, which is in the best interests of the people of Canada as well as the United States, is for us to redouble our efforts to increase our exports to the world as a whole and to the United States in particular. I hope you are receptive to that line of reasoning.

The problems the United States faces are quite different. You earn a healthy surplus on current account each year - and a great portion of that surplus comes from your dealings with us. At the same time, your world role, including military commitments abroad and the structure of your economy, generates an outflow of capital in the form of investment as well as foreign aid. When this outflow exceeds your current-account surplus, as it has in recent years, you can and do finance this with United States currency. In so doing, the United States has performed the essential task of providing much of the liquidity required by the monetary system of an expanding world economy over the postwar period. Problems only arise when major creditors decide, wisely or not, to exercise their option to exchange reserve U.S. dollars for gold.

For some time now, the United States Government has taken steps to moderate the outflow of American capital. Recent instruments called into play have been the "interest-equalization tax" and the "guide-lines" to parent corporations with overseas branches, aimed at reducing this transfer of capital abroad and improving current-account earnings. When these measures were first introduced there was understandable and serious concern over their potential effect on the Canadian economy and our special relation. Applied to Canada, these measures could have done great harm to both our economies, and because of Canada's smaller size, the impact would most seriously be felt on our side of the border.

Fortunately for all concerned, consultation and co-operation between our two countries quickly led to the recognization of the fundamental fact that the outflow of capital from the U.S. to Canada is intimately and inseparably related to the trade surplus the U.S. presently enjoys. Canada was consequently exempted from the impact of the interest-equalization plan on new issues. And action was taken by both Governments to dispel some of the original concerns about the effect of the guide-lines in relation to corporate investment in Canada.

This brings me to a second consideration, the role of U.S. direct investment in the Canadian economy. This role is indeed substantial. Put in terms of the U.S. economy, it is as if non-residents had invested better than $400 billion in your economy, more than $250 billion of which took the form of direct ownership of U.S. corporations; it is as if the residents of one other nation held direct ownership of close to $175 billion in U.S. companies. In such circumstances, you should wish to be very certain indeed that, in return for