in her trade balance with the United States. Whichever view may be correct, the fact is that since 1948 Canada has become extremely dependent upon the United States for resource and industrial capital.

2.03 *Balance of Payment Arrangements* Over the period from 1948 to 1968 approximately 85% of Canada's total foreign capital requirements has been furnished by the United States. This high degree of dependency upon United States' capital has had some serious consequences in Canada.

For example, in July 1963 a presidential message was delivered to the United States Congress proposing the introduction of an interest equalization tax on the purchase of foreign securities. The Canadian balance of payments reacted swiftly and within 24 hours there was a greater loss of official holdings of gold and foreign exchange than in any other similar period even during the difficult days in the spring of 1962. It became necessary for Canada to request an exemption from the tax and this was, in fact, granted but on certain conditions which had the effect of restricting Canada's freedom of action to some extent. This situation was described by Mr. W. Earle McLaughlin, the Chairman and President of The Royal Bank of Canada in the following evidence given to the Committee:

> "In July 1963, in what seems to have been an over-reaction to the U.S. Interest Equalization Tax, Canada bought exemption by agreeing to maintain a ceiling on her reserves of gold and foreign exchange... this constraint on Canada's reserves was not only humiliating in itself, it was in direct conflict with the type of monetary policy indicated for a country which, by this time, was entering into a period of inflation.
>
> Sometime in 1967, apparently in May of that year, the ceiling was reduced to $2.550 billions, where it remained until December 17, 1968, when it was formally abolished. However, a number of vague qualifications concerning Canadian borrowing in the U.S. and the level of Canada's exchange reserves remain; and an earlier stipulation, agreed to on March 7, 1968, requires that Canada, alone among countries in the western world, must carry her U.S. dollar reserves, not in short term marketable securities—e.g., U.S. Treasury bills—but in non-negotiable, "long term", cashable on demand, U.S. Treasury obligations, the interest yield on which is unknown to the general public."

A bulletin issued by the Dominion Bureau of Statistics indicates that after the exemption from the Interest Equalization Tax was granted, capital inflows from the United States to Canada increased rapidly.

The adoption by the United States of the Interest Equalization Tax indicates the serious balance of payments problem which the United States itself faces and which, because of Canada's dependency upon the United States capital market, is a serious concern to Canadians as well.

A second example occurred late in 1965 when the United States authorities decided their balance of payment position required the adoption of further guideline measures. Two were of major concern to Canada.

The first requested United States financial institutions other than banks to limit the increase of their holdings of long-term foreign investment to a small portion of their holdings at an earlier date. The Canadian authorities considered that this restriction on the sale of long-term securities, in the United States, if applied to Canada would have very adverse effects. Accordingly they sought and obtained an exemption from this restriction, justified on the same grounds as the original exemption from the Interest Equalization Tax, and in considera-