non-trade items had been worsening by something over $100 million per annum. On the whole, therefore, it appeared that the deficit this year in the balance of payments would be $1.2 or $1.3 billion. The discount on the Canadian dollar had helped the situation to some extent, but not enough.

The inflows of capital from the United States had been shrinking during the past year or so. Foreign investors were buying less Canadian securities in the marketplace than during the earlier period, and municipal and provincial financing was now being done, for the most part, in Canada.

In summary, since October 1961 the Exchange Reserve Fund had lost about half a billion of its exchange reserves, or about one-quarter of its reserves. The subject had not been noted in the press until May 1st when the New York newspapers had referred to a weakening of Canadian exchange.[1]

On May 1st the Prime Minister and the Minister of Finance had discussed the exchange situation, and the Minister had then reviewed the matter with officials. Four alternative courses of action had been given serious consideration.

One possibility would be to continue to support the Canadian dollar at the current rate of 95 cents in terms of U.S. currency. This however, would involve further depletion of exchange reserves and might not produce a real solution.

A second course might be to support the Canadian dollar, and to announce that the government intended to hold it between 93 and 97. The Minister of Finance had at first been inclined to favour this course but later had concluded that, if the rate should fall to 93, it might then be necessary to use up substantial amounts of reserves to prevent a further decline.

A third possibility might be to fix the par value of the Canadian dollar at .95 U.S. dollar, and to seek the agreement of the International Monetary Fund. This however would involve the risk that the government might have difficulty in defending a fixation at this level.

The fourth proposal, favoured by some officials, would be to fix the par value of the Canadian dollar at .90 U.S. dollar. The market would probably regard this valuation as reasonable, but such a drop in the exchange rate would have a more severe effect upon domestic prices than the alternative measures, and the government might be accused of manipulating the exchange rate in order to obtain an advantage in international trade.

After considering the alternatives, the Minister of Finance had proposed, and the Prime Minister had signed, a recommendation that the par value of the Canadian dollar be fixed at .92½ U.S. dollar for the purposes of the Agreement for an International Monetary Fund. There had been no fixed par value of the Canadian dollar since 1950, although the order in council of 1949 was still nominally in effect.[2]

The Minister of Finance had wished to await reports on the exchange market of this day before action was taken on the recommendation. On this day it had again been necessary to sell considerable sums of U.S. dollars. Accordingly, it was proposed that the concurrence of the I.M.F. be now obtained and that an order be passed later on this day to fix the par value of the dollar as recommended. The Minister would make an announcement immediately after the passing of the order.

2. *During the discussion* the following points were raised:

(a) the proposed course was the best alternative available, and its advantages outweighed its disadvantages. The government would be able to capitalize on it by presenting it as a deliberate step to encourage Canadian exports.

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[1] Voir/See "Canada May End Dollar Support," *New York Times*, May 1, 1962, p. 50.

[2] Voir/See Volume 15, document 509.