Why is the Canadian dollar ruling at a premium in terms of the United States dollar? Let us examine this question in simple terms. Whenever anyone, whether in Canada or the United States or any other country seeks to buy United States dollars with Canadian dollars he is helping to create a demand for United States dollars. This demand arises from our merchandise imports, from our tourist expenditures abroad, from transfers of interest and dividends, from purchases of securities and other assets. Similarly anyone seeking to buy Canadian dollars with United States dollars or other foreign exchange is creating a demand for Canadian dollars. This demand for Canadian dollars arises from our merchandise exports, from foreign tourist expenditures in Canada, from foreign purchases of Canadian securities and from a whole host of other transfers of funds from foreign countries to Canada. Basically the exchange rate for the Canadian dollar is determined by the variations in the demand for Canadian dollars on the foreign exchange market and the supply of Canadian dollars on that market resulting from the millions of individual transactions of the type I have described. The effect of Canada's very large deficit in its commodity trade and other current account transactions tends to raise the value of the United States dollar in relation to the Canadian dollar. Indeed, the larger the trade deficit the stronger is the upward pressure on the United States dollar as compared with the Canadian.

But other things are not equal or static. Many persons in the United States and other countries abroad are choosing to invest in Canada. In order to make their investments they must purchase Canadian dollars with United States dollars or other foreign exchange. This creates a demand for Canadian dollars and an upward pressure on the value of the Canadian dollar in relation to the United States dollar. The volume of demand by holders of United States dollars and other foreign exchange for Canadian dollars for investment and other purposes has tended to outrun the volume of demand for foreign exchange for settlement of trade deficits and other purposes. The consequence is the substantial premium on the Canadian dollar.

In the net result the premium is a result of the operation of the forces of supply and demand in a free market. Our dollar has a higher value than the United States dollar because holders of so many United States dollars wish to exchange them for Canadian dollars, particularly for investment in Canada, and they wish to invest in Canada because they have confidence in our country and its financial soundness and are attracted by the returns paid on capital in Canada, for ours is a country chronically short of capital.

The next question that is asked, and properly, is cannot the Canadian Government intervene to eliminate or reduce the present premium? The answer is - "yes, but".

In the first place, the Canadian Government could take steps to shut out or discourage capital from abroad or it could follow policies that would disturb external confidence in Canada and its financial soundness. It could, for example, follow inflationary policies. Would anyone advocate this?