

I now come to more recent events in respect of which I think this House is particularly interested. In the latter part of 1965, at a season when the Canadian balance of payments is normally relatively strong, our current account and general balance of payments were suddenly strengthened as a result of the second large wheat sale to Russia. During the autumn, Canadian borrowers were also selling a large volume of Canadian securities in the United States. As a result, Canada's exchange reserves, including our net creditor position in the International Monetary Fund, which is proper to count in this connection, increased well above the level at which we were aiming to hold them in accordance with our understanding with the United States in 1963. We regarded this abnormal rise in our reserves as temporary. I said at the time, and I say again, we can reasonably expect to see it reverse in the first half of 1966, but it coincided with a period when the United States was quite concerned over its balance of payments.

The Minister of Finance in November last requested all major Canadian issuers of securities in the United States to defer delivery of their issues, wherever possible, until after the turn of the year, when our current-account position would be seasonally weaker and the U.S. position could be expected to be stronger. I should like, at this time, through the medium of this House, to express the appreciation of the Government for the co-operation shown by these Canadian borrowers in meeting this request, and also for the co-operation of the dealers and buyers of the securities concerned.

While a considerable improvement in the United States payments position had resulted from the measures taken in 1963 and from the subsequent guidelines programmes instituted by President Johnson last February, the United States overall deficit remained large and the United States Government decided last fall that it must adopt further measures. There were two of these of major concern to Canada.

The first of these was a new guideline, a request by the U.S. authorities to financial institutions other than banks, which includes not only investment companies, insurance companies, etc., but also pension funds and other major buyers of securities, to limit the increase in their holdings of long-term foreign investments to a small fraction of their holdings at an earlier date. This was a most important restriction on the sale of long-term securities in the United States. It is one that for some reason or other has been overlooked in some of the comment which has been made in the press of this country. If applied to Canada, it would have had very serious adverse effects. We sought and obtained an exemption from this important restriction, justified on the same grounds as our original exemption from the interest-equalization tax, and in consideration for an undertaking of the same kind on our part regarding the level of our reserves.

We felt, and when I say "we" I mean the financial authorities in this country (the Bank of Canada and the Department of Finance), that in the present state of the economy it was not desirable to rely too heavily on general monetary and financial measures to control the inflow of capital and a more specific instrument of control might be needed.