rely on exchange restrictions but rather on the general handling of our domestic economic situation to keep it in reasonable balance with the rest of the world and to maintain the Canadian dollar over the years in an appropriate relationship with foreign currencies". The decision to let our dollar go free, and particularly this new decision to abolish foreign exchange control completely, were dramatic moves which apparently caused a great deal of interest on the part of foreign investors. The great influx of capital in 1950, amounting to over a billion dollars, had been to a very considerable extent of a speculative and short-term nature, though much of it stayed in Canada. While the capital inflow was smaller in 1951 - $563 million - it was of quite a different and more permanent character. Almost $300 million went into direct investment in Canadian resources and industries and most of the rest represented borrowings by Canadians, chiefly provincial and municipal governments, in the New York market. These two types of inflow have continued in 1952, particularly the inflow for direct investment purposes.

It would be a mistake, however, to attribute the strength shown by the Canadian dollar during the present year to an inflow of capital. Such partial evidence as we have at this date seems to indicate that it is our balance on current account which has been responsible for the recent strength of our dollar. The change this year in our balance of trade has been quite extraordinary. In the 12 months ended in October 1951, our imports exceeded our exports by $122 million. In the 12 months ended in October of this year, our exports exceeded our imports by $235 million. This net reversal of over $357 million, with its consequent shift in the supply of and demand for Canadian dollars, has been, I am sure, the dominant influence on our exchange rate.

The invisibles in our current account are not likely to have shown any material change during the year and so far as we can now see, capital movements must have been close to a balance. Certainly, if there has been a net movement either way, it must have been a small one. What has probably been happening is that the inflow of capital for direct investment and as the result of public borrowings in New York has driven out a roughly corresponding amount of capital represented by U.S. holdings of Canadian marketable securities. It could not very well be otherwise, given the basic factors in the situation: (1) a favourable balance on current account, as we believe, probably not of large proportions; (2) a flexible exchange rate; and (3) a policy of not building up exchange reserves in order to stop an upward trend in the dollar. (In the first nine months of this year the increase was held to $77 million.) Given a balanced current account, the inflow of capital, say, for direct investment tends to force up the Canadian dollar rate and thus to encourage the taking of profits by foreign investors who hold Canadian marketable securities bought when the dollar was at a substantial discount. This year also Canadians have probably increased their holdings of foreign exchange abroad.

That some measure of success has attended the efforts in Canada to achieve external as well as internal stability in a highly disjointed world is evidenced by the recent strength of our dollar, the present size of