

mental question, and one to which those who have been concerned with this proposal have naturally given a great deal of thought. I think in some ways it is like the questions that have been raised regarding whether this is or is not an adherence to the gold standard. This is one of the most searching questions that could be raised in connection with these proposals. The question is whether adherence to the Bretton Woods proposals increases our dependence on the United States.

I think that the short answer to that question is no, that that is not the case. To demonstrate that or to indicate my reasons for thinking that, let me begin by asking the question, how is a depression transmitted from one country to another? That is what we are concerned about. Thinking of our relations with the United States, and assuming that we will control capital movements to the United States or in general, the main method by which a depression would be transmitted to Canada would be through a decline in the volume and value of our exports to the United States consequent upon a reduction in demand in that country, that reduction in demand being in turn consequent on, or perhaps more accurately the manifestation of, a depressed industrial condition in the United States. We lose export markets because the United States is depressed. Our foreign exchange income, our United States dollar income, is reduced—and when I say our United States dollar income is reduced, I am thinking now of the income of the country—and the Canadian dollar incomes of the producers of newsprint and cattle and the other things that one has in mind, will fall. Well, now, what is a country like Canada to do in those circumstances? I argued this morning that under the theoretical operation of the gold standard a system which I do not think has, in fact, been in force in Canada for more than a very short period, a period to be measured in months, since the end of the last war—we would take steps to correct that situation by reducing domestic incomes, and those are the deflatory consequences that you fear. Now, what would happen under Bretton Woods? The reduction of domestic incomes that would be the consequence of this theoretical operation of the gold standard arises out of the importance which is attributed by national policy to the maintenance of a fixed exchange rate. If national policy is to retain the fixed exchange rate because we felt that the trouble is a temporary one, that there will soon be recovery in the United States, that our foreign exchange income will rise and therefore we do not want to make what might be a disturbing judgment of that sort—under the Bretton Woods proposals, if that is our policy, we are better able to carry it out because we have more sail to give to the wind in the form of international reserves in addition to our own reserves. We have our ability to acquire additional reserves by purchasing foreign exchange from the fund. So that under the Bretton Woods proposals we can defer the necessity of doing anything such as exchange depreciation or import restriction or deflation for a longer period of time. This is the leeway that I spoke of yesterday, Mr. Quelch, a sort of recurring leeway; I did not have in mind a leeway that we get once and once only at the beginning of the transitional period. So we do get in that leeway the time in which to make a better judgment as to the underlying factors in the situation.

If after using that leeway, the situation is such that we have come to the conclusion that an appropriate thing for us to do is to adjust our exchange rate, to depreciate the dollar, then as I indicated yesterday, we have as a result of adherence to Bretton Woods, lost no bit of our ability to do that, with this single qualification, that we have undertaken not to do that except after consultation with the fund and we have undertaken not to do it unless that change is necessary to correct a fundamental disequilibrium. The situation I have described of unbalance in our international accounts, accompanied by domestic unemployment at home or the threat of domestic unemployment at home certainly is, in my opinion, a fundamental disequilibrium within the meaning of the Act.