

In this connection it is our expectation that the increase in the ceiling on the interest on loans under the National Housing Act from 6 to 6.75 per cent will result in a re-entry of the approved lending institutions on a considerable scale into the mortgage field under the National Housing Act. This will both support house-building activity in Canada and relieve pressure on government financing.

Canadian Dollar Premium

The current high premium on the Canadian dollar has given rise to further questions recently. I have dealt with this subject previously, but perhaps a more extended reference to the subject today is warranted. Let me stress at the outset that responsibility for exchange policy rests solely with the Government. The Bank of Canada in this regard acts only as the Government's agent.

In 1950 Canada stopped pegging the rate of exchange of the Canadian dollar and in 1951 abandoned foreign-exchange control. From that time to this the value of the Canadian dollar in relation to the United States dollar and other currencies has been determined not by the Government but by the forces of supply and demand operating in a free market. Since 1952 the Canadian dollar has been ruling at a premium in terms of the United States dollar. At first this was a matter for pride on the part of Canadians. It has for some time been and is a matter for concern. The premium has fluctuated, rising to 6.25 cents in 1957. Currently it is under 5 per cent. It adds to the difficulties of our exporters and our gold-mining industry; it has the effect of reducing tariff protection for Canadian producers and expanding our imports by making them cheaper.

It is regrettable that there is an element of misunderstanding prevalent as to the premium and its causes. This is illustrated in demands made from time to time for what is called "restoration of parity" between the United States dollar and the Canadian dollar.

No Reason for Parity

Permit me to observe in the first place that there is no existing reason why there should be parity between them. Each dollar is a form of managed currency, and the management of the two currencies is in different hands. The fact that they happen to bear the same name constitutes no reason for any precise equality between them.

In the second place, the exchange rate of the Canadian dollar is determined in an absolutely free market. Its value is not arbitrarily fixed by the Government but results from the free play of economic forces, that is to say, the laws of supply and demand.