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## CANADA FACES THE CHALLENGE OF INFLATION

*On March 6, the Minister of Finance, Mr. Mitchell Sharp, announced to the House of Commons the fiscal measures he proposed to take to provide the Government with the revenues that Bill C-193, rejected by the Parliament on February 19, had been designed to produce. Mr. Sharp's statement follows in part:*

...Both the international exchange and capital markets have been influenced considerably by the American balance-of-payments programme announced on January 1 this year. The main item in the U.S. programme which has created uncertainty over its effects on Canada has been the new mandatory control over direct investments by American-controlled businesses in other countries. When this programme was announced and explained to us, it was evident that the U.S. Government had tried to achieve its objectives in ways that would minimize any impact on Canada, which, as the figures of the balance of payments between our two countries show, would be counter-productive as far as the United States is concerned. I was able to say when these controls on direct investments were announced, that the assessments given me indicated that these were not intended or likely to lead to any material reduction in the flow of U.S. direct investment to Canada this year.

Since January 1, we have examined the probable effects of these controls in more detail and discussed them with the United States on several occasions. These controls leave room for about as much flow of direct investment into Canada as would occur without them this year, with a few exceptions. In the particular case of the petroleum industry, where programmes change considerably from year to year, some problems have been under review both here and in Washington, and I expect these can be overcome.

### CLARIFICATION FROM WASHINGTON

However, in the nervous mood that has existed in international markets in recent months, it was natural that there would be uncertainty and concern over the possible effect of these American measures on the Canadian situation. Around the middle of January, pressure developed against the Canadian dollar in exchange markets, apparently triggered by misunderstanding of the effects of these U.S. controls on direct investment. On January 21, the U.S. Secretary of the Treasury, after discussing the matter with me, issued a clarifying statement which provided reassurance that the new U.S. balance-of-payments programme does not call for, nor is it intended to have the effect of causing, abnormal transfers of earnings or withdrawals of capital by U.S. companies having investments in Canada, and that the programme provides scope for continued large flows of capital to Canada. There continues, of course, to be an important inflow of long-term capital from the U.S.

On January 21, the Bank of Canada increased its bank rate from 6 to 7 per cent and announced that the chartered banks had agreed to discourage the use of bank credit to facilitate abnormal transfers of funds abroad by Canadian subsidiaries of foreign companies, or to replace financing which has in the past normally been provided by parent companies.

Following this clarification by the U.S. and the action of the Bank, the pressure on the Canadian dollar abated. The regular announcement of our



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