

expansion of world trade on a multilateral and non-discriminatory basis.”<sup>9</sup> The surcharges were known to contain anomalies and to create difficulties both at home and abroad; the Canadian authorities considered that the system be eliminated as soon as appropriate improvements in the balance of payments situation justified such a course.

10. So far as fiscal measures were concerned, the revenue increases from the import surcharges would amount to \$200 million on an annual basis and proposed reductions in government expenditures would amount to \$250 million on an annual basis. The total of these changes, which could amount to something like \$450 million, had to be compared with the announced budget deficit of \$750 million, which on the basis of more recent estimates might have been somewhat larger. In any event, the effect of the fiscal measures should be to cut the budget deficit by at least half.

11. There were also measures affecting the Bank rate and the use of cash balances from exchange sales, dealt with separately by Mr. Lawson (see below).

12. In commenting on the general background and outlook, Mr. Plumptre said that Canada's basic problem, from the international point of view, had been for the past three or four years, and continued to be, the heavy current account deficit in a situation in which the economy was not stretched and in which it could be argued that Canada ought not to be drawing on the world pool of scarce capital to cover its international deficit. The problem was aggravated by the exceptionally rapid growth of the labour force which was relatively a greater problem in Canada than in perhaps any other developed country. Despite these difficulties, the Canadian authorities had reason to believe that progress was being made.

13. The question whether the level of Canadian reserves was steady or fluctuating (which was raised in paragraph 3 of the Secretariat paper) was in fact a secondary and relatively superficial matter. With the move to a fixed exchange rate, the level of the reserves could not be expected to show the same stability it had in the previous decade. While these fluctuations might represent a more dramatic expression of Canadian problems, the underlying difficulties were the same as they had been for some years. Canada's economic position and balance had properly been the concern of other countries even in a period when the reserves were steady; the combination of substantial underemployment of Canadian resources with unnecessarily large inflows of capital was a matter of continuing concern to the free world generally.

14. He said that some continuing capital inflow would be desirable, referring to paragraph 7 of the Secretariat note, and that the Canadian authorities would maintain a “hospitable climate” for foreign capital. In the short run, there were problems of interest rate policy which would be dealt with in detail by Mr. Lawson; how much inflow (and corresponding current account deficit) would be appropriate in the longer run depended on many factors at home and abroad. If a new “resource boom” like that of 1955-57 developed, substantial capital imports and corresponding current account deficits would be appropriate and in the general interest of the free world. However, the Canadian authorities did not consider developments of this sort likely in the near future. They were anticipating a period in which there would be a substantial lessening of imported capital requirements and corresponding current account deficits, representing a continuation and an acceleration of trends already evident in recent years. Theoretical studies which had been done in connection with the work of Working Party 2 on economic growth indicated that, on certain hypotheses, there was likely to be a persistent improvement, when cyclical and special factors were eliminated. Indeed, it would be remarkable if this were not the case. Canada was basically a very rich country and the variety of exploited resources had been greatly improved over the past 10 or 15 years. The efforts of the Government and others concerned would be to work with this basic improvement and to

<sup>9</sup> Voir/See “Policy Still Expansionist,” *Ottawa Citizen*, June 30, 1962, p. 39.