

Dollar Exchange Policy

With respect to other aspects of our commercial policy during this period, the record reveals an equally determined effort to remove and reduce obstacles to trade wherever possible. Under the General Agreement on Tariffs and Trade, Canada made substantial tariff reductions in the course of three rounds of extensive multilateral negotiations. Despite some pressure, the Canadian dollar was kept at parity with the U.S. dollar until the 30 per cent devaluation of so many other currencies in September 1949, forced the Canadian Government to revert to the former official rate of a 10 per cent premium on the U.S. dollar. In making this decision, however, the Minister of Finance was again quite aware that under current world conditions the "right rate" for the Canadian dollar at one time was unlikely to be the "right rate" at another, and that he might soon have to face again the problem of altering the official rate, with all the inconveniences and disturbances that these sudden and arbitrary changes create.

We had not long to wait. During the spring and summer of 1950, as our economic situation improved, a large and increasing number of people, both inside and outside Canada, came to the conclusion that the Canadian dollar was undervalued at the chosen official rate and, therefore, on top of a large inflow of investment capital interested in the development of our oil and other natural resources, we had an avalanche of speculative capital lured by the almost "sure bet" of an upward revaluation of our dollar. In ten weeks in the third quarter of 1950, our exchange reserves increased by over \$500 million. The flood, which of course increased the already strong pressures toward inflation, seemed to acquire momentum steadily. It was clear beyond peradventure that the existing rate could not be held. It was equally clear that in the unsettled state of world conditions, and having in mind the common pool of highly mobile capital serving our two countries, no-one could pick some new fixed rate "out of the air" or select it by any theoretical equation and say with any assurance that that new rate could be maintained.

Forced off a fixed rate for the second time since the war's end, we had no choice but to leave the rate free to find its own level in the market. We explained our position to the Fund and they expressed understanding of it, although requesting us to keep the situation under review - which, of course, we would do in any case. Since that time, September 30, 1950, Canadian policy has been to allow the rate to be determined by the normal play of economic forces, without official intervention except to ensure orderly conditions in the exchange market. No attempt is made to hold back a trend in either direction but only to smooth out excessive short-run fluctuations. After it was freed, our dollar rose sharply to U.S. \$0.95, hovered for a few months around the latter level and then began a persistent and almost uninterrupted rise until it reached par in February 1952, and then a peak in August at a premium of over 4 per cent.

On December 14, 1951, the Finance Minister announced another bold conclusion to which the Government had come, namely, that henceforth "we would be better advised not to