

The prospect for Canada in 1965, therefore, after these guide-lines were announced, was one of a fairly substantial draining away to the United States of short-term capital at least; and this did, in fact, occur.⁽²⁾

(In the fall of last year, 1965, another bunching of Canadian issues on the U.S. market occurred. Although the volume was not exceptional, it coincided with a combination of normal seasonal strength in the Canadian current account and an exceptional influx of short-term funds in connection with our second major sale of wheat to the Soviet Union. Since these three factors were combining to raise Canadian reserves to a level that was positively embarrassing in the light of our undertaking regarding our exemption from the IET, my predecessor again undertook to co-operate in smoothing out the flow of issues. This time, his request to major Canadian borrowers in November was that they should defer the delivery of securities which had already been offered until after the turn of the year, thus placing the capital outflow in a period of relatively greater strength from the point of view of the U.S. balance of payments, and of some seasonal weakness in our own balance.

The request was certainly complied with, but I don't think we can say that the market, this time, took it in its stride. Considerable doubt and uneasiness was apparent. For two years running, Canadian borrowers had been "warned off" the U.S. market, however understandably and politely, at about the same time of the year and despite the freedom of access implicit in the exemption from the IET. How real and how permanent was that freedom, therefore? Fortunately, the situation was somewhat clarified soon after.)

Last December saw the introduction of new programmes of guide-lines to reinforce those of February. For the first time, a quantitative limit as well as the interest penalty involved in the IET was placed upon purchases of long-term foreign securities by U.S. investors. (I realize that this limit, like all the guide-lines, is, in fact, voluntary; but it is no more than realistic to suppose that it will be observed, and can be regarded as having almost mandatory force.) At the same time, the programme for non-financial corporations was extended to another 400 companies and reinforced by a specific target for the limitation by each of their direct investment abroad, inclusive of the reinvestment of foreign earnings. The target was to be global in each case, and it

(2) The guide-lines did not apply to the New York agencies of the Canadian chartered banks, through which some part of this short-term capital would inevitably be channelled. Nevertheless, in order to ensure that the foreign-currency operations of those banks would not be inconsistent with the aims of the U.S. guide-lines, the Canadian Government requested all chartered banks to conduct these foreign-currency operations in such a way that the net position of their head offices and Canadian branches vis-à-vis residents of the United States was not reduced below that which existed at the end of 1964.