

when Canada was in a bit of a recession. That year we were importing capital at the rate of a billion and a half dollars a year. It is nonetheless true that we are heavily dependent upon being able to import the capital we need and we are, therefore, vulnerable to any change in the United States capital markets or any restrictions placed on the United States capital markets of a nature that would interfere with the flow of capital into Canada.

This leads one immediately to consider the position of the United States today. It is hard for us, living as we do just across the border, and perhaps even more difficult for people living at a greater distance from the United States, to realize that a country as powerful and as rich as the United States, one whose currency is in such demand in so many parts of the world, can have a balance-of-payments problem. Yet there is no doubt that it has, although it is very different from ours.

Unlike Canada, the United States normally has a large surplus on its current international account. That is to say its earnings abroad exceed its spending abroad. The amount of the surplus varies of course from year to year, but the general pattern is clear and strong.

The problem of the United States arises from the fact that the American people and the American Government, for one reason or another, have in recent years wished to invest abroad, provide as foreign aid, or utilize for defence purposes much more each year than was available from the surplus in their current-account balance of payments.

The flow of private investment from the United States has been running at billions of dollars a year for many years. It has contributed in the short run to the overall deficit in the balance of payments which the United States has experienced. These overall deficits show up in the loss of the United States gold reserves and in the accumulation of claims on the United States by central banks and governments of other countries and by other banks. While some of us, such as Canada, are only too glad to hold most of our exchange reserves in the form of United States balances and short-term investments, others have been accumulating more of such reserves in U.S. dollars than they feel they would really like to hold and they wish from time to time to convert substantial amounts of such balances into gold, thereby reducing the ultimate reserves into which the U.S. dollars are convertible. For the past several years the United States Government has been taking measures to deal with the situation. The more important and spectacular of these measures have been those which aim at reducing the flow of U.S. investments to other countries.

From what I have said earlier about Canada's position, it is evident that we are particularly vulnerable to restrictions on the outflow of U.S. capital. At first sight it might look as if we were the country most seriously affected. In fact, however, the United States cannot really improve its own balance-of-payments situation by restricting the flow of capital to Canada. That is the difference between the Canadian position and the position of other countries. In short, we are not a drain on the United States. We provide support to the U.S. balance of payments.