million. Thus, in view of the loss of reserves ($600 million to June 22), the net capital outflow had probably been $250 million. However, from the announcement of the emergency programme on June 24 to the end of June, there had been an improvement of some $50 million in the reserves over and above the $650 million borrowed. The Canadian authorities hoped and believed that the July figures would show a continued improvement over and above the $67 million of advance debt repayment by the French Government.

5. As for the emergency programme, its fundamental purpose was to restore confidence at home and abroad, and in particular to maintain and defend the newly-established parity at 92.5¢ U.S. In order to restore confidence, it was necessary to determine what had been in the minds of those who had moved money out of Canada. Contacts with traders and investors at home and abroad made it clear that they had two preoccupations, the continuing deficit of $1 billion a year on international current account and the continuing deficits of $3/4 billion to $1 billion on budgetary and fiscal account. It followed, that if confidence was to be restored, both these elements had to be dealt with as effectively and expeditiously as circumstances would allow. These were the two main features of the programme, to which a third was added: it was natural and appropriate in the circumstances that there should be an increase in interest rates.

6. Meeting on June 20, two days after the general elections, the Cabinet decided that, in view of the indecisive election results, and the extent and immediacy of the emergency, an emergency programme should be introduced immediately and it should not in any way depend upon new legislation. In any case, Parliament could not legally be called together for a full month. This had implications in two fields: (a) in regard to the balance of payments, the use of existing powers resulted in action that had many anomalies and inconsistencies (thus increasing the likelihood of domestic pressures to get rid of the measures as soon as possible); and (b) in regard to fiscal affairs, only those increases in revenues and economies in expenditures were possible which were under government control; fiscal economies could not be considered in respect of payments made on a statutory basis – for example, social security payments – and no new tax legislation was possible.

7. As to measures affecting the balance of payments, the only "invisible" item which could be immediately reduced was the tourist exemption, which had been very liberal by international standards. The exemption of $100 every three months, which applied largely to Canadian visitors to the United States, was reduced to $25. This was expected to have the effect of reducing the incentive which had previously existed for Canadian tourists to make buying trips in the United States. The exemption of $300 which applied only to Canadians making overseas visits had been reduced to $100.

8. The introduction of a system of graduated surcharges on imports had the double purpose of generating additional revenue and conserving foreign exchange. The system was correctly outlined in the Secretariat note, which had been based on the Prime Minister's statement, but the impossibility, in the circumstances, of introducing a system which was altogether neat and consistent deserved emphasis. (Mr. Plumptre then explained how the surcharges were built up, item by item, from the differences – if any – between the "general tariff" rates and the rates for most-favoured-nation countries and for British preferential countries.)

9. Several other important features of the surcharges deserved to be stressed. Existing margins of tariff preference had been retained unchanged. No change in commercial policy was involved; as the Minister of Finance had stated on June 29, "the temporary application of these surcharges should not be interpreted as signifying any change whatsoever in the long-term commercial policy of the Canadian Government. The Government will continue to seek the reduction of trade barriers of all kinds, enlarged opportunities for Canadian exports and the