

THE BUDGET ADDRESS

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control this Government's position is clear. We welcome capital into Canada if, when here, it is willing to act as if it were Canadian and not as if it were foreign. During the past two years there has been increasing evidence, in many quarters, that foreign capital in this country is becoming increasingly conscious of its Canadian responsibilities. This is a subject that has been vigorously brought to the attention of foreign investors by the Prime Minister and others. It would be better if the desired result were achieved by such persuasion than by legislation...

"There is a related question upon which I should like to dwell for a moment. This is the question of our exchange rate. The external price of our Canadian dollar has been high for eight years now and is currently running about 5 per cent above the United States dollar. This situation has been brought about mainly as a result of an inflow of foreign capital and reflects the confidence of outsiders in the soundness of the management of our financial affairs. Admittedly it lowers the prices received in Canadian dollars by those exporters who have to sell in world markets at world prices. It also means a lower price in Canadian dollars for many classes of Canadian imports. On the other hand, it lowers the cost of imported raw materials and semi-finished goods used by our manufacturers and it has helped to keep down our cost of living and cost of producing.

"I have said on many occasions and I repeat now that I would welcome the development of circumstances that would reduce the external price of our dollar provided this was brought about by means other than an arbitrary and artificial attempt by the Government to work against basic economic forces.

"I have seen some references to a demand that the Government should deliberately 'devalue the dollar'. This kind of talk might have been appropriate when Canada was on the gold standard, or even when it maintained a fixed exchange rate. We have not been on the gold standard for half a century and we have not had a fixed exchange rate for a decade.

"An attempt by the Government artificially to lower the external price of the Canadian dollar would involve borrowing or raising by taxes very large sums of money with which to buy up foreign exchange. It might well be that the Government could not reduce the inflow of funds sufficiently without imposing direct controls on capital movements and then on the movement of goods. Apart from the economic objections to such policies it would be a very difficult matter to work out effective technical means of control. Even then, the controls would not be effective unless the objective were one which commanded the broad

public support which is necessary for general compliance. In other words, we would be embarking upon a gigantic financial speculation with no assurance of success.

"The exchange value of the Canadian dollar is determined by the free play of the forces of supply and demand. These forces have pushed the rate up, and, at some time in the future, market forces could drive the rate down. Many people would be happy about such a development, at least if it came about in an orderly manner. However, those who undertake commitments in terms of United States dollars or other external currencies expose themselves to the risk of having to repay at a time when the exchange rate for the Canadian dollar may be quite different from what it is today. This is a risk which the borrower, whether personal, corporate, provincial or municipal, must bear himself and is a danger which I clearly wish to stress.

"I have referred to the improvement in our exports; we must look further ahead, however, and make every effort to preserve and improve our access to world markets so that Canada's exports, which will remain one of the foundations of our prosperity, can continue to expand.

"In recent years the Western European economy has been enjoying particularly rapid and substantial growth. More than one-quarter of our exports go to Western Europe including the United Kingdom. A prosperous, politically stable and expanding European economy will provide increasing opportunities for profitable Canadian trade. We have been concerned, however, with the possible political implications of economic disagreements within Western Europe. We need also to take all practicable steps to ensure that our trading position is not adversely affected.

"We have therefore been giving very close attention to the problems that are arising from the emergence of the two regional trading groups in Europe: the European Economic Community of six countries and the European Free Trade Association of seven countries. We have been anxious that these arrangements should not lead to inward-looking and discriminatory practices and should not weaken the world-wide trading system which has been built up so patiently and so successfully in recent years. We are therefore seizing every opportunity to put forward the Canadian point of view at meetings with representatives of these groups and with our other trading partners. Moreover, we are participants with the European countries and the United States in discussions relating to, and have declared ourselves ready to become members of, a reconstituted organization for economic co-operation and consultation; and, further, we will press that such organization shall subscribe not only to the principles of the international institutions governing trade and payments but also that members shall honour their obligations in these institutions. In particular, we are