

inflows. We decided to act promptly before speculation became too heavy - thereby, we believe, making a contribution to the stability of the international monetary system.

Our situation in May 1970 was not quite comparable to that faced by others last month. In the first place, we had moved comparatively quickly from a deficit to an unexpectedly large surplus on current account. Secondly, our trading and financial relations with the U.S.A. are very close. Finally, the extreme openness of our economy to the movements of goods and capital causes us to experience unusual difficulty in maintaining a fixed exchange-rate within the margins prescribed by the IMF (International Monetary Fund).

The classic prescription would have been to seek the concurrence of the Fund to a new and higher par value. Our problem was to determine a rate that would be sustainable for a reasonable period.

In taking the decision to move to a floating exchange-rate, we made clear our intention to resume our obligations under the par-value system as soon as circumstances permit. This remains our firm determination and, while we have reviewed the situation from time to time during the past year, the underlying situation, both internal and external, has not seemed to us sufficiently settled to re-establish a par value that could be defended over the foreseeable future. In terms of payments, we have been confronted by a need to bring about an adjustment in our capital account in line with changes that have occurred in our current account. Expansionary financial policies, which our domestic economic situation required, have been helpful, but we have had to reinforce the effect of these policies by appeals to Canadian borrowers to seek the funds they required in the Canadian market to the maximum possible extent. At the same time, we felt a sense of uncertainty about the impact of international developments - a sense that would appear to have been justified by recent events.

The extent of departures from the fixed-rate regime that have taken place raises very large issues. Our experience and that of others has underlined the inherent difficulties involved in combining a system of fixed exchange-rates and free capital flows internationally with the imperative demands placed upon our control instruments by the objectives of high employment and price stability domestically. There are a number of different ways of escaping from the dilemma -- greater exchange-rate flexibility, greater control over the international flows of capital, greater international harmonization of monetary policies - but all these alternatives raise difficulties of a practical and policy nature.

One thing is clear - namely, that international consultation and co-operation are becoming more and more essential in order to attain our individual and collective goals. In this task, the OECD has a major role to play. Canada is ready to join with others in the search for further improvements in the international system, which, though not perfect, has within itself the capacity to move with the times, coping equally with continuing difficulties and new problems. Canada supports the principle of strengthening co-operation on economic policies within the OECD.