

in return for the exemption of long-term Canadian new issues from the Interest Equalization Tax was that Canada would not make use of the exemptions to a greater extent than was necessary to meet its current-account deficit; in other words, that it would not thereby build up its exchange reserves.

The Interest Equalization Tax, and the exemption of long-term new Canadian issues from it, became law in the fall of 1964. Both in anticipation of the enactment and for some time after it, there was naturally a press of Canadian borrowers coming to the U.S. market with issues that had been deferred in the earlier months of uncertainty. A situation of some strain developed in the market, which was, of course, no more in the interest of Canadian borrowers than of the United States authorities. My predecessor as Minister of Finance, therefore, agreed, towards the end of the year, to assist in alleviating this pressure by requesting major Canadian borrowers to defer further offerings of securities in the U.S. market for the time being.

At the beginning of the following year, i.e. at the beginning of 1965, President Johnson announced another defensive action, namely voluntary guide-lines. They were aimed at reducing the extension of short-term credit abroad by U.S. financial institutions, and at encouraging non-financial corporations both to reduce their net transfers of capital abroad and improve their current-account earnings.

These February 1965 guide-lines also applied to non-financial corporations. The 400 or so major industrial and commercial corporations concerned were each asked to achieve a target improvement in their individual foreign payments positions, by any combination of higher exports, lower imports, increased repatriation of earnings, reduced capital outflows for investment, and so forth. Canada was specifically excepted from this target, for the very good reason that any improvement in the position of those corporations vis-à-vis Canada would have had to be reflected in increased Canadian borrowings under the exemption from the IET. Canada was not excepted, however, from a request that these corporations should, where possible, repatriate any cash balances they might be holding abroad.

Nor was Canada exempted from any of the provisions of the companion programme of guide-lines applying to banks and other financial institutions, administered by the Federal Reserve. The most important element was the request that banks should limit to a very moderate rate indeed the growth in their short-term credits abroad. Almost equally important to Canada was the request that non-bank financial institutions should observe a similar guide-line in respect of their short-term foreign assets.