

The value of our dollar on the foreign exchange markets is very strong, and we have not had to cope with an outflow of gold or foreign exchange.

There is nothing extraordinary about the stability of our gold and foreign-exchange reserves, because, as you know, Canada has a floating rate of exchange. Our total international payments and receipts are partly kept in balance by reason of fluctuations in the value of the Canadian dollar and, as you all know, over the last decade our dollar has often been at a substantial premium, despite the existence of a regular and large deficit in our international trading.

The explanation of this apparent paradox - the co-existence of a balance of payments deficit and a premium price for our currency on the exchange markets - lies in the substantial and continuous inflow of capital into Canada from other countries, with the greater proportion coming, of course, from the United States. It is no new thing for Canada to be affected by substantial inward movements of foreign capital. The difficulty in recent years is that our exchange rate, and the structure of the balance of payments, have been subject to the influence of a capital inflow that may have been greater than the economy really required in terms of some forms of imported capital. When this happens, it raises the exchange value of the dollar unduly, which serves to cheapen the cost of commodity imports in comparison with the prices of domestic goods. When this happens imports tend to increase unnecessarily and Canadian exports, having become more expensive to buyers abroad, tend to decline, or do not rise as much as they should. Too much foreign investment in Canada in certain forms, or too much borrowing abroad by various Canadian entities, can have unfavourable consequences to the economy. That is one reason why many Canadians have been giving searching thought to the whole subject of external investment in Canada.

#### Need for Foreign Investment

It appears that the discussion of this question in Canada has given rise to some misunderstanding in some quarters in the United States concerning the attitude of Canada towards foreign investment. In times like these when investors in the United States have been exposed to the confiscation of their holdings in Cuba, in a spirit of ill-will, and without attempts to negotiate such matters, or to pay proper compensation, it is natural that feelings in the United States should become sensitive to any questions that may be raised concerning the role of foreign investment, even in a country as friendly to United States business and United States investment as Canada. I think that this sensitiveness may be the reason for the concern that has been expressed in a few places in response to a measure I proposed a few weeks ago on behalf of the Canadian Government.