on their proposals. In the meantime I shall give you in outline the essentials of what we officials have been proposing to put forward. I have participated in the discussions over the past fortnight.

The essence of the problem is that we need a large inflow of capital to Canada, nearly a billion dollars a year, to meet our large international deficit on current (i.e. income and expenditure) account, and we also need to keep the capital we have in Canada that can move out, both foreign and domestic. Our current balance can be and should be reduced as time goes on, but to do it quickly would take very severe measures and cause serious shortages of imported goods. Our "exposure" to the danger of outward movement of capital is enormous – there are billions of dollars of foreign capital invested here and billions in Canadian-owned investments that could try to get into foreign investments. To set up exchange control quickly would be impractical – and very undesirable from a long-term viewpoint. Our exchange reserves are very modest by comparison – now, I suppose, just a bit over $1200 million. We have thought that $1000 million was the minimum to which they should be allowed to fall before we took emergency action (things can always get worse!). They are apt to be below that level by the end of this week – and could be much lower. They could vanish within a month or two, leaving us at the mercy of the market from day to day.

The essence of the problem is to regain the confidence in the Canadian dollar of foreign and Canadian investors. It now seems evident that they have lost confidence in us – in our economy in some measure – and in our governmental behaviour particularly. They feel we are not paying enough attention – any of the parties – to "sound" financial policies of various kinds. Whether they are right or wrong is no longer the point – they are the ones whose opinion is important now and if we are to regain their confidence we have to demonstrate convincingly our intention to balance our budget within a reasonable time and to improve the balance of our international income and expenditure, so that we are not so dependent on imports of capital.

Consequently what officials are proposing consists essentially of three elements. The first is to demonstrate our ability and will to move toward a balanced "respectable" budget, now that our unemployment situation is substantially better and improving. The second is to demonstrate our intention to correct our balance of payments by taking emergency action to reduce imports while the slower more desirable measures take effect. The third is to get some temporary loans – or promises of loans – to get us over the low point and convince the market that we can see the business through. (I have emphasized to the others that we should make our own strong decisions on the first two aspects before seeking loans, so there will be no question of others imposing terms on us.)

To move toward a balanced budget we propose action both on expenditures and taxes. Expenditures should be reduced moderately – perhaps about $175 million over a full year – about $60 or $70 million this fiscal year. Much of this can be accomplished by deferring construction and purchases – a bit can be done by cutting out or down on some subsidies, etc. – for example the gold mining assistance. On the revenue side, we should act strongly enough to be convincing – and dramatically. After much discussion we have reached the conclusion the main effort – for reasons of equity and economics – should take the form of a temporary surtax on income tax – an addition of 1/6 to everyone's tax which would yield about $300 million a year. (The prospective budget deficit this year is now somewhat over $800 million.)

There are other tax reforms which Finance has in mind but I have urged them to be simple and obviously fair in what they put forward to meet this emergency.

On the balance of payments side, we propose temporary taxes on a wide range of imports, rather than quotas. It is proposed that some imports be taxed at 5% (in addition to present tariffs) and others, less essential, at 15%, while those that enter importantly into costs of