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CANADA-U.S. FINANCIAL RELATIONS

The following statement was made in the House of Commons by Mr. Mitchell Sharp, Minister of Finance, on January 27:

...For more than a decade Canada has been spending more abroad than it has been earning abroad. The deficit has been as high as \$1.5 billion in 1959. In 1963 and 1964 it was down to about half a billion dollars. In 1965 it got up to about \$1 billion and, during the present year, it will probably be a little more.

At times of prosperity like the present, when our own resources are almost fully employed, this current-account deficit and the import of capital which accompanies it enables us to grow and develop more rapidly than would otherwise have been the case. We are, of course, able to have these continuing substantial deficits only because we are able to finance them.

Where is the capital to come from? Only from the United States can we expect to raise private long-term capital in the quantities that are required to finance this substantial and continuing excess of current international payments over current international receipts. Neither the volume of saving disposed toward foreign investment, nor the organization of the capital markets, is great enough in Europe or elsewhere to supply more than a modest fraction of our requirements. We are fortunate that, for a variety of reasons, Canada enjoys the confidence of American investors. It is that confidence which enables us to invest and to grow at the high rates that we desire, and indeed expect, while also maintaining a high standard of consumption.

There are differences of view whether it is desirable that we should incur such substantial

current-account deficits year after year and import capital on the scale that we do. One point, however, is obvious, namely that it makes more sense to incur deficits and import such large sums of capital at a time when we are working close to potential and growing rapidly, as is now the case, than it was, say, in 1959 when the party opposite was in power and there was a high rate of unemployment. I have already mentioned the figure for 1959 when Canada was in a bit of a recession. That year we were importing capital at the rate of \$1.5 billion a year. It is nonetheless true that we are heavily dependent upon being able to import the capital we need and we are, therefore, vulnerable to any change in the United States capital markets or any restrictions placed on the United States capital markets of a nature that would interfere with the flow of capital into Canada....

From what I have said earlier about Canada's position, it is evident that we are particularly vulnerable to restrictions on the outflow of U.S. capital. At first sight, it might look as if we were the country most seriously affected. In fact, however, the United States cannot really improve its own balance-of-payments situation by restricting the flow of capital to Canada. That is the difference between the Canadian position and the position of other countries. In short, we are not a drain on the United States. We provide support to the U.S. balance of payments.

BACKGROUND OF U.S. ACTION

One of the first important measures the United States took to improve its balance of payments was the interest-equalization tax, a tax payable by United