

The Address—Mr. Diefenbaker

As a result, in 1960 and 1961 an important part of the government's expansionary economic program was to reduce the large deficit in current international transactions by a series of steps designed to facilitate an orderly movement of the exchange rate to a level more appropriate to the basic economic situation. These steps included measures to ensure a larger supply of Canadian capital and reasonable rates of interest to Canadian borrowers. As this was achieved, the economic decisions of private individuals and businesses based upon the market would bring about an increase in Canadian production and employment.

These measures to facilitate an orderly movement of the exchange rate hinged on efforts to improve the availability of Canadian capital at reasonable interest rates and to reduce the incentive for Canadians to seek capital abroad. None of these measures interfered with the free movement of capital over which no controls were exercised.

In the budget of June 1961 it was pointed out that since these measures might take some time to have their full effect, the resources of the exchange fund would be used if necessary to offset unwarranted upward pressures on the exchange rate. As it turned out, such use of the exchange fund was not necessary and the operations of the fund continued to be directed towards moderating market movements in the rate, not towards producing such movements.

The achievement of a better exchange rate was only part of the government's policy of economic expansion and recovery in 1960 and 1961. It was our view then, as it is now, that the key to Canadian success in the world economy must lie in improving the productivity and competitiveness of the Canadian economy. We undertook programs to increase productivity, to encourage research, to expand and improve technical training, to encourage investment and to stimulate exports. We continue to pursue these programs and purposes.

Our efforts to achieve a more satisfactory rate of exchange were successful and during 1961 substantial progress was made in reducing our deficit on current international payments. That year it declined to \$982 million, the first time for six years that it was below a billion, and we achieved our first surplus of commodity exports over commodity imports for nine years. I should like to emphasize that. This surplus amounted to \$173 million.

It is against this background that the exchange markets must be viewed. From June 1961 at the time of the budget until April 1962, the market was engaged in a process of testing the exchange rate. This was a new situation for those carrying on exchange

transactions, either directly or in connection with trade or investments. For the first time in almost ten years the foreign exchange value of the Canadian dollar was below that of the United States dollar, and for a considerable period the market was trying to make judgments as to where the rate was likely to settle.

The day after the June 1961 budget, the Canadian dollar opened in some European markets at a 4 or 5 per cent discount on the United States dollar. Almost immediately it moved to about a 3 per cent discount, where it remained until October. Throughout those three months the level of exchange reserves also remained relatively stable, somewhere around \$1,900 million which was about half way between the levels of \$1,800 million and \$2,000 million which had prevailed over most of the preceding decade.

In October the market appeared to take the view that the exchange rate for the Canadian dollar would likely settle about equal to the U.S. dollar, perhaps on the old but mistaken notion that two currencies with the same name ought to have the same price. This market view was backed up by those engaged in international trade, who delayed the payment of bills or opened up the cashing of receipts in accordance with this expectation. As a result the exchange fund accumulated \$186 million, U.S., and at the end of October the total holdings amounted to \$2,111 million which was above the top end of the range over which the reserve had moved during the preceding decade. During November and December 1961 and the early months of 1962, the exchange rate of the Canadian dollar moved downward and it reached a 5 per cent discount on the U.S. dollar in February. During this period the authorities continued to maintain orderly markets and exchange reserves declined moderately by \$32 million in November, by \$23 million in December and then, increasingly, by \$134 million in January and \$175 million in February as the market lags and leads in the timing of trade settlements undertaken in the preceding October were reversed. In other words, those who had anticipated a par rate in October and bought or sold their exchange to offset future trade transactions on the basis of this expectation, had now to recognize that the market view was that the Canadian dollar would remain below par and they readjusted their positions in a manner that reduced our reserves.

At the end of February our exchange holdings totalled \$1,747 million, not significantly below the range of amounts that had been in the exchange reserves over the preceding decade. During the month of March