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UNITED STATES - CANADIAN BALANCE OF PAYMENTS

Prospects and Opportunities

Remarks by

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It is not often enough that public officials have an opportunity to anticipate international financial issues and to discuss means of resolving them in an atmosphere of relative calm. Fortunately, the relations between Canada and the United States have been such that we have been able to communicate regularly, and this juncture in our histories lends itself admirably to such a discussion. In both countries, this is an interesting but relatively quiet period. Thus, it is a good time to focus on a number of emerging features in the balance of payments of our two countries and to weigh possible means of dealing with several problems before they harden into critical issues.

The balance of payments is a perennial focus of attention in Canada, and the explanation is clear: Canada is far more heavily dependent than the United States on international trade and capital flows for the health and progress of its economy. In contrast, the United States public is relatively indifferent to the international side of the economy, except when a crisis looms on the horizon or

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an issue such as the recently proposed restrictive trade legislation attracts attention. Given this legacy, only in recent years has the balance of payments become an important focus of United States economic policy. Therefore, in the American context, we still face a task of impressing on the minds of the public the significance of the balance of payments -- especially to enhance understanding of the damage to our trading position that has resulted from the period of excess demand and expectations of continued inflation that began in 1965. But even in Canada, where this subject is probably better understood, it may be possible to point up a number of basic changes in the structure of Canada's balance of payments with the United States and to assess their significance for the future of financial relations between our two countries.

United States Balance of Payments in Perspective

As background for consideration of the United States-Canadian bilateral relationship, it might be helpful to examine briefly the recent history of the United States overall balance. In the early 1960's, the United States accounts were characterized by rising surpluses on current account matched by rising outflows of private capital. Between 1960 and 1964, the balance on goods and services more than doubled, rising from $4.0 billion to $8.6 billion. The trade surplus more than tripled in the same period, climbing from $2.0 to $6.8 billion. Net outflows of U. S. private capital advanced by more than two-thirds -- from $3.9 billion to $6.6 billion. The growing trade surplus in these years reflected a better price performance in the United States than the average achieved in industrial nations. However, this was also a period when the American economy was operating too far below full utilization of resources. The rising trend of capital outflows reflected both the lower cost of capital in the United States and more advantageous investment opportunities abroad -- especially in Western Europe, but also in Canada.

Beginning in 1965, and continuing into 1969, national economic policy was confronted with the need to cope with emerging inflationary pressures sparked by the Vietnam War. At that point in time, the economy was already nearing full employment in response to policies designed to achieve fuller utilization of our capacity and productive potential. An enormous volume of excess demand was generated while appropriate policies to restrain it were not adopted in a timely fashion. The result was a rapid and persistent increase in costs and prices.

The impact on our balance of payments was both predictable and severe. There was a sizable shrinkage in the U. S. share of world exports, and the relative losses centered primarily in those commodities subject to a substantial amount of international price competition -- such as chemicals and certain kinds of machinery involving relatively simple technological endowments. More importantly, there was a sharp rise in United States imports. Between 1964 and 1969, merchandise imports almost doubled, climbing from $18.6 billion to $35.8 billion. In the same period, merchandise exports rose by just over two-fifths -- from $25.5 billion to $36.5 billion. Imports grew about twice as fast as the economy as a whole, and the ratio of imports to gross national product increased from nearly 3 per cent to about 4 per cent. Under these circumstances, our trade surplus dropped from $6.8 billion in 1964 to only $600 million in both 1968 and 1969.

This decline can be traced to a number of factors, but the domestic inflation is undoubtedly the most important explanation. The magnitude of the deterioration in our trade accounts due to inflation is indicated in analytical studies recently completed by the Board's staff.* These findings suggest that, if the United States (and Canada) had been able to avoid excess demand and maintain relative price stability in the last half of the 1960's while other industrial nations experienced the level of economic activity they actually registered, the U. S. trade surplus in 1969 would have been higher by about $3-1/2 billion. This result would have put the trade surplus not far below the $5 billion averaged in the first half of the decade -- a level which many observers believed was sustainable in the long run. Under these conditions, specific actions directed toward improving the current account at best could make only a marginal contribution. Clearly, the over-riding need was to check the domestic inflation.

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* See George B. Henry, "United States Merchandise Trade, 1965-69"; F. Gerard Adams (University of Pennsylvania) and Helen B. Junz, "A Note on the Effect of the 1965-69 Boom in the United States on World Trade."

In the face of these problems in the current account, which could not be reversed quickly in any case, we took a number of steps to restrain the outflow of private capital. The most important of these were the imposition of the interest equalization tax (IET), restraints on direct investment abroad by U. S. corporations, and limitations on lending to foreigners by American banks. In adopting these measures, special consideration was given to Canada's situation, and below I shall comment further on this experience.

But, in spite of these restraints, the deficit in the United States balance of payments has remained disturbingly large. Thus, the task of bringing our balance of payments under better control remains with us, and -- in my opinion -- it should be assigned a higher priority on the agenda of national economic policy.

United States-Canadian Balance of Payments

With this background, we can look more closely at the Canadian sector of the United States international accounts. On the whole, some of the familiar features of United States-Canadian financial relations have not changed in recent years. However, several significant changes have occurred, and these have affected both the trade balance and capital flows.

For our purposes, there is no need to dwell at length on the network of economic and financial relations that has evolved between our countries. Yet, a brief sketch may help to remind us of the main outlines. Viewed from the Canadian side, about

65 per cent of its total foreign trade is with the United States. Nearly one-third of net capital market financing in Canada is derived from United States sources. Variations in output and prices in Canada follow closely -- and roughly parallel -- similar changes in the United States. Changes in credit conditions and movements in interest rates in the United States are transmitted quickly to Canada.

From the United States side, too, the importance of the network of economic relations can be seen: one-quarter of U. S. exports go to Canada, and just under three-tenths of U. S. imports now originate in Canada. Since 1966, over 30 per cent of U. S. private capital outflows were directed to Canada, and in 1969 the proportion reached 40 per cent. Moreover, during the decade of the 1960's, the importance of Canada in the United States balance of payments increased appreciably. For example, the Canadian share of U. S. imports climbed from 21 per cent in 1961 to 28 per cent last year. Its share of U. S. exports rose from 18 per cent to 26 per cent. While Canada attracted 26 per cent of the net outflow of U. S. private capital in 1961, the proportion advanced to 40 per cent in 1969 -- as indicated above.

In citing this evidence, I am highly conscious of Canadian concern about the extent and closeness of its linkages with the United States. I know that among some segments of the Canadian population this concern has taken on a tone of restlessness and has stimulated a desire for less closeness with the U. S. and more contact -- cultural and political as well as economic -- with areas outside of North America. I understand this quest, and I can appreciate its significance to Canadians. At the same time, however, I must also observe that the growing integration of international money and credit markets is knitting together even more closely the leading industrial and trading nations of the world. The most visible example of this trend on the international financial scene is the dramatic development of the Euro-dollar market in the last half of the 1960's. There is no need to pause here to explain the causes of this expansion, since these are fairly well understood. But because of mechanisms fashioned in the Euro-dollar market and the short-term capital flows to which they give rise, the principal money markets in the United States and Western Europe -- as well as in Canada -- are now tied even more closely together.

Canadian Access to the United States Capital Markets

Historically, Canada has run a sizable deficit on current account with the United States, and this was normally covered by large inflows of long-term capital. This capital inflow included the movement of funds by U. S. corporations for direct investment in Canada, but a larger share reflected borrowing by Canadians in the

U. S. capital market. Flotations of securities by Canadian provinces and other local governments accounted for most of the funds raised, but business enterprises (some of them owned by governmental units) also have tapped U. S. sources in substantial volume. Part of the proceeds of these borrowings, as well as other funds, became available to Canadian banks which were then able to shift them abroad (especially to New York) for investment in short-term earning assets.

In the environment in which this mechanism historically has functioned, few -- if any -- difficulties arose. However, as the United States found it necessary to adopt restraints on capital outflows as part of the campaign to reduce the deficit in our balance of payments, the disruption of the traditional pattern of capital flows to Canada became a real possibility. To avoid this outcome, Canada has been exempt from the main features of U. S. measures to restrain capital outflows. It is unnecessary to trace in any detail the record of actions to carry out this policy (beginning with the IET in 1963, extending through the various guidelines governing lending by U.S. banks and direct investment by U.S. corporations, and ending with the nearly complete exemption of Canada from the restraints in the Spring of 1968). It is sufficient to recall that the restraints on capital outflow adopted by the U.S. were aimed primarily at a reduction in the flow to developed countries -- mainly in Europe -- that are not fundamentally in need of financing from the United States. In fact, the phenomenal growth of the European market for international issues (from $600 million in 1963 to $6 billion in 1968) confirms the judgment that the development of this market was long overdue.

In undertaking to exempt Canada from these restraints, the United States felt that it was appropriate that Canada should avoid being a conduit through which funds originating in the United States could pass through to the developed countries. Let me repeat: when the restraint measures were adopted, it was recognized that -- in view of the traditional deficit in Canadian current account transactions with the United States -- it was necessary to preserve balance in this relationship by not interrupting the normal flow of long-term capital. Yet, it was also felt that Canada should not draw on this financing to offset any significant or persistent deterioration in transactions with third countries -- or to add unduly to reserves.

Changing Structure of Canadian International Transactions

As it turns out, however, large changes have occurred in the pattern of Canadian international transactions in the last few years. These changes have had a significant impact on Canada's balance of payments -- especially with the United States.

As is widely known, a substantial part of the capital raised in Canadian capital markets comes from abroad. On the average, about one-quarter to one-third of net long-term bond financing in Canada has been financed externally, and last year the proportion rose to 40 per cent. Normally, the United States market has been the prime external source of funds. In fact, in terms of the long-term capital account of the Canadian balance of payments, in the 1961-67 period, net inflows from the United States averaged about $1 billion (Canadian) while with other countries there was a small net outflow from Canada. In 1968 and again in 1969 Canadian borrowers raised about $500 million in European capital markets. Nevertheless, the net inflow from the United States at $1.5 billion in 1969 was still very large.

Meanwhile, the Canadian current account with the United States has registered dramatic improvement. In the 1961-67 period, the Canadian deficit on current account with the United States averaged at $1.5 billion per year. The average in 1968-69 was about $750 million -- only half that in the earlier years of the decade. With countries other than the United States, Canada had a surplus on current account which averaged about $700 million in 1961-67. The current balance was about the same in 1968. But in 1969, the current account surplus with the rest of the world virtually disappeared.

As a consequence of these shifts in the pattern of trade and payments, the balance of payments relations between Canada and the United States have undergone a fundamental change. On current and long-term capital account (frequently referred to as the "basic balance"), the balance between the United States and Canada was negative for Canada by just over $500 million per year in the 1961-66 period. It was approximately even in 1967. But in 1968 and 1969, Canada had a positive basic balance with the United States which averaged about $600 million. Thus, the net swing from the early years to the end of the 1960's was in the neighborhood of $1 billion in favor of Canada.

Part of the swing in the Canadian trade balance with the United States can be traced to the 1965 agreement affecting automobile production and trade. There is clearly no need to go into details with respect to this fundamental realignment of the structure of output and employment in this basic industry in our two countries. The significance of the change is etched sharply in the balance of payments statistics. On this account alone, the trade balance moved in favor of Canada by over $500 million between 1964 and 1969.

<u>Outlook for the Canadian Balance of Payments</u>

In 1970, the exports of Canada (as is true for exports of the United States) have benefited from high demand and inflation in Europe. For Canada, this has generated an enormous current account surplus. At a seasonally adjusted annual rate, this amounted to over $1 billion (Canadian) in the first half of this year. In 1969, as a whole, there was a current account deficit of $722 million. Moreover, so far this year Canada has experienced a large inflow of long-term capital and also a sizable reversal of short-term capital outflows that had minimized reserve gains in 1969. The combination of movements in the current account and long-term capital inflows generated for Canada a basic balance surplus of $955 million in the first six months of 1970, not seasonally adjusted, compared with $1.4 billion in all of 1969. Partly reflecting these favorable developments, Canada increased its reserve assets by $1.2 billion in the January-June months, and by further substantial amounts since then.

The gain in Canada's trade balance this year has been spectacular -- from a surplus of only $209 million (Canadian) in January-June, 1969, to a surplus of $1.2 billion in the first half of this year. Very large rates of increase were recorded with all areas; but in terms of absolute amounts, some 40 per cent of the increase in exports was with the United States. Consequently, the Canadian trade surplus with the United States was about $1 billion at an annual rate in the first half of 1970.

I do not want to undertake a detailed assessment of the outlook for the Canadian balance of payments. However, it is possible to identify the principal factors that are likely to influence the Canadian results. The future course of the exchange rate will be crucial to the outcome, of course, but it seems reasonable to assume that the rate will settle somewhere above its position earlier this year.

In the second half of 1970, the Canadian current account surplus may be somewhat less than in the first six months of this year, when it was at an annual rate of about $1 billion (Canadian). Cyclical and special circumstances were especially favorable in the first half, and the higher exchange rate will make some difference.

With respect to the long-term capital account during the rest of 1970 and in early 1971, it appears that the volume of new Canadian securities floated in the United States capital market may continue to be large, although there was a lull in the second quarter. It also seems likely that direct investment inflows from the United States will be quite large -- they were already nearly $1/2 billion in the first six months.

In the somewhat longer run, Canada -- like the United States -- may have more difficulty in registering large trade surpluses with the rest of the world outside North America. But, on the whole, the likely evolution of the U. S. economy should provide support to the Canadian position.

Outlook for the United States Balance of Payments

Turning to the United States, it looks as though the deficit in our balance of payments may have improved considerably during the summer months compared with the situation in the first half of the year. The fourth quarter may also bring further gains. Nevertheless, 1970 will undoubtedly show another sizable deficit in our balance of payments.

Last year, the deficit, measured on the liquidity basis, amounted to $7 billion. However, some part of this was associated with the movement of U. S. funds (and probably Canadian funds as well) in and out of the Euro-dollar market, as well as reflecting special transactions by the U. S. Government. But even after adjusting the data for these factors, the overall deficit was about $4.5 billion in 1969. In the first quarter of this year, the overall deficit (seasonally adjusted but before special transactions) amounted to $1.3 billion, and it rose to $2.2 billion in the second quarter. As in 1969, however, we expect the second half results to be much more favorable on the liquidity basis.

Measured in terms of transactions in official assets, the United States had a balance of payments surplus of $2.7 billion in 1969. This reflected primarily the sizable inflow of funds attracted by U. S. commercial banks through their branches abroad. But in the first half of this year, the official settlements balance was again in deficit; it was negative by $2.8 billion (seasonally adjusted) in the first quarter and by $2.1 billion in the second. The deficit for the third quarter will probably remain large. This outcome is suggested by the behavior of liabilities of U. S. commercial banks to private foreigners. In July and August, these liabilities declined by about $1.6 billion, including a decrease of $1.5 billion in liabilities to foreign branches. A further modest decrease occurred during the first half of September.

A sizable improvement in the U. S. trade balance has been a striking feature of our balance of payments in 1970. In the first half, the export surplus was at an annual rate of $3.9 billion, compared with $1.5 billion in the second half of 1969 and only $638 million for last year as a whole. In both June and July, the export surplus was at a seasonally adjusted annual rate of $5.1 billion. In August, it declined to $2.5 billion -- at an annual rate. For July-August combined, the balance was $3.8 billion, compared with $3.4 billion for the second quarter. The large gain in the trade surplus in the late spring and early summer reflected a sharp rise in exports while imports rose more moderately.

Taking the year as a whole, our trade balance will undoubtedly show a substantial improvement over the 1969 experience. However, the margin of exports over imports in the second half seems likely to be smaller than it was in the first six months. A very rough estimate suggests that the trade surplus might be in the range of \$3 - \$3-1/2 billion, compared with only \$638 million in 1969. While this outcome would be a marked improvement, we would still face a stiff challenge if we are to restore the United States trade surplus to the neighborhood of the \$5 billion annual average achieved in the first half of the 1960's.

With respect to capital movements, it is now evident that a sizable outflow of U. S. private capital also occurred in the second quarter of this year. In the first three months, the outflow amounted to \$1.7 billion (seasonally adjusted) and it rose further to \$1.8 billion in the second quarter. So in the first half of 1970, the outflow of U. S. private capital was at a seasonally adjusted annual rate of close to \$7 billion, compared with \$5.4 billion in 1969 as a whole. The outflow of funds for direct investment was particularly striking, amounting to about \$1.4 billion in both the first and second quarters. In fact, the \$2.8 billion recorded in the first half of this year exceeded the level during any earlier six-month period. Apparently little of this outflow was offset by borrowing abroad by U. S. corporations or take-downs of proceeds from previous foreign borrowing, although U. S. corporations were borrowing some funds abroad for use in the U. S. We expect the outflow of funds for direct investment in the last half of 1970 (particularly in the closing months) to be well below the first half rates. Last year, corporations cut direct investment outflows sharply in the fourth quarter in order to remain within the limits set by the balance of payments controls. We may see a repetition of this experience this year.

Commercial banks in the United States had a net outflow of nearly $460 million in the second quarter. In the first three months of this year, they had a net inflow of almost $150 million. However, in July the banks reduced their claims on foreigners by close to $350 million. Roughly, three-fifths of this decrease ($214 million) occurred in assets covered by the Voluntary Foreign Credit Restraint Program administered by the Federal Reserve System.

As mentioned above, over the summer months, U. S. commercial banks greatly reduced their indebtedness to their foreign branches. As of June 24, these liabilities totaled $12,399 million; by September 16, they had declined to $10,807 million, or by $1.6 billion.* The noticeable decrease was undoubtedly a reflection of the banks' greater access to domestic funds -- especially after the Federal Reserve Board suspended the ceiling on maximum interest rates payable on large denomination certificates of deposit of 30-89-day

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* The statistical series, "Liabilities of U. S. Banks to Own Foreign Branches," was revised in mid-September to correct for distortions resulting from certain Euro-dollar settlement practices followed by a few banks. The effect was to reduce the levels outstanding through August of this year by an average of about $370 million per month.

maturities. On the other hand, most of the large banks active in the Euro-dollar market apparently have made an effort to keep their liabilities to their foreign branches at a level high enough to safeguard their reserve-free base for Euro-dollar borrowings. As of September 2, only six of the 24 banks using the historical base in reporting to the Federal Reserve have experienced reductions in their base through a run down in liabilities to their foreign branches. On that date (the latest for which we have tabulations), the reserve-free bases aggregated about $10.9 billion, compared with an original level of $11.2 billion in May, 1969, when the standard was set. On the other hand, the excess of liabilities outstanding over the banks' aggregate bases is very small -- $300 million as of September 2. In February of this year, the excess was $2.5 billion. So, while the banks have been repaying Euro-dollar borrowings, they also have been reluctant to see their reserve-free bases decline -- undoubtedly because of uncertainty about the extent to which they might have to borrow substantial amounts of Euro-dollars in the future.

Looking ahead, we should be mindful of the fact that part of our recent success in improving the U. S. trade balance has reflected a level of domestic output below our potential and a more rapid increase in demand in most other industrialized countries than they would consider desirable. Most European countries are acting vigorously to dampen the rate of cost and price increases, and it is quite likely that next year we will have more difficulty in achieving export gains. Since we expect home demand in the United States to be rising, we would expect some increase in imports. However, since most of our increase in imports has been in consumer goods in recent years (and consumer expenditures have continued to rise even during the general slowdown of the economy), we would hope that the increase in imports of such goods in 1971 will be moderate.

With the outlook for further gains in the trade balance somewhat questionable, it will be necessary to be cautious about the possibility of larger outflows of private capital. This suggests that U. S. stabilization policies must also be conducted with a view to minimizing the outflow of U. S. funds in search of higher yields abroad. This requirement is in addition to the need to avoid providing so much stimulation that domestic inflation would be rekindled before it is checked.

Implications for Future Financial Relations

The changing pattern of Canadian trade and payments we have been reviewing raises a number of interesting questions about future balance of payments relations between our two countries. Undoubtedly, Canada remains our largest trading partner, representing over one-quarter of total U. S. merchandise trade. In the last few years, however, there has been a persistent deterioration in the U. S. current account surplus with Canada. Between 1966 and 1969, this development accounted for one-half of the deterioration in the overall current account balance for the United States. In 1969, the balance with Canada dropped nearly to zero, according to the U. S. accounts, and in the first half of this year it worsened further.

As indicated above, there has been a substantial deterioration of Canada's payments position on current account with countries other than the United States. For example, from 1966 to 1969, Canada's current account with the United Kingdom worsened by $162 million (Canadian); with other European members of OECD the worsening amounted to $159 million, and with all other foreign countries by $560 million. Expressed differently, the impact of Canada's overall payments improvement of $440 million (Canadian) on current account between 1966 and 1969 fell on transactions with the United States, which improved by $1.3 billion. Naturally, this development has been a matter of concern to the United States.

Coincident with a worsening in the U. S. trade and current account with Canada, capital flows have also had an adverse impact on the U. S. balance of payments. The annual average net flow of long-term capital to Canada from the United States rose by nearly $1/2 billion from the early 1960's to 1965-69. As mentioned above, this was consistent with the mutual desire of the two countries to exempt Canada from U. S. controls on capital movements. In that light, the cost to the U. S. balance of payments could be accepted.

Unfortunately, however, several developments on the Canadian side appear to be less compatible with the mutually reinforcing balance of payments policies which it was assumed the two countries would follow. For instance, it appears in retrospect that Canada's open access to the U. S. capital market in recent years has resulted in a sizable build up in international reserves. It will be recalled that, in connection with the exemption from the IET, Canada agreed to limit the size of its reserves to a level in the neighborhood of $2.6 billion. To do this, initially general monetary policy was used to moderate the inflow of capital; outstanding Canadian Government securities held by U. S. investors were purchased, and long-term funds were invested in World Bank bonds. In more recent years, however, Canadian reserves expanded considerably. For instance, while these reserves declined by about $360 million (Canadian) in 1966, they rose moderately the next year. In 1968, reserves expanded by $350 million, and another gain (of about $65 million) was registered in 1969. As indicated above, the level of Canada's reserves rose by $1.2 billion in the first half of this year and the uptrend has undoubtedly continued.

The pattern of short-term capital movements that has emerged in the last few years also raises a question. From 1961 through 1965, Canada was a net borrower of short-term capital. While on balance short-term funds typically moved to the United States for temporary investment in earning assets, there was a net inflow of short-term funds to Canada from other countries. Beginning in 1966, there was an overall outflow of short-term capital. This amounted to $1.4 billion (Canadian) in 1969, and well over half of it ($800 million) went to countries other than the United States. Thus, although the relationship may be quite indirect, Canada did serve in a sense as a channel for some U. S. funds to move to Europe in search for higher yields.

Finally, if Canada does enact the proposed tax changes to give an extra incentive for Canadians to invest in domestic securities, it will introduce a new disturbing element in net bilateral capital flows. The statistical evidence suggests that -- at least through the first quarter of this year -- Canadian investors had been liquidating holdings of U. S. equities. Although some of these net sales probably can be attributed to declining prices in the U. S. stock market, some of them may also have been undertaken in anticipation of the adoption of the tax proposal favoring acquisition of Canadian issues. Again, the result has been to tip the net flow of U. S. capital in favor of Canada.

In focusing on these changing United States-Canadian balance of payments relationships, my purpose is simply to rekindle our awareness of the need to work together to strengthen our international positions on a mutual basis. As a minimum, it is important that, as Canada adjusts its balance of payments structure in the future, it will not -- as in the recent past -- be at the expense of the United States. Of course, it would be even better if our two countries -- by joint efforts -- could enhance our combined positions with respect to the rest of the world as the network of trade and payments continues to evolve in the future.

Concluding Observations

In closing these remarks, let me reiterate that I have focused on the U. S.-Canadian balance of payments at this time in order to flag several recent developments that deserve attention before they become a matter of urgency. The substantial improvement in Canada's balance on current account -- to a considerable extent -- has been reflected in a deterioration in the position of the United States. Canada's current balance with the rest of the world had worsened noticeably by 1969, though of course, we have noted a sharp resurgence this year. At the same time, Canada has continued to raise a large amount of long-term funds abroad -- much of it in the U. S. capital market. Moreover, last year Canada was a net exporter of a large volume of short-term funds -- a sizable share of which settled in the United States while the rest found its way into the Euro-dollar market. The combined impact of these developments put considerable strain on the U. S. balance of payments.

I am familiar with the view of many Canadians which holds that Canada cannot hurt the United States payments position and that they have no impact on U. S. economic and financial policies. However, Canada's reserves rose by $1.2 billion in the first half of this year, and perhaps another $300 million were gained in July and August. This rise in Canadian reserves has been a major contributor to the large U. S. official settlements balance of payments deficit this year.

Recently, the United States has been urged strongly to use its gold and other reserve assets to finance our large deficit. (In passing, I should note that U. S. reserve assets declined by $2 billion through August of this year, compared with a decrease of $1.2 billion in 1969 as a whole.) The fact is that much of the increase in our liquid liabilities is to Canada. This arises in large part from Canadian use of the international capital markets (especially the market in the United States) to obtain long-term funds, while enjoying a large surplus on current account.

I am by no means suggesting that restrictions be placed on Canada's access to our capital market. Canada should continue to have the opportunity to raise whatever funds it needs to further its development. However, I do think it is appropriate to ask whether Canada should not give more consideration to ways of restructuring the internal flow of savings in Canada in order to meet a larger share of the domestic demand for funds.

In closing, let me say again that it is seldom that neighbors can talk about important international financial matters in a calm atmosphere. I am glad that we had such a chance -- and that we could do so in good humor and with mutual friendship.