Canadian production or the cost of living of the average Canadian, or which are highly essential for other reasons. The lowest surcharge applied to a large volume of imports of a less essential nature, for some of which a surplus capacity existed in Canada and for others of which alternative Canadian products were available. A 10-p.c. surcharge applied to imports for most of which it was possible for consumers to defer purchases or for which Canadian production was available, while the heaviest surcharge was imposed on a group of imports including luxury items. The second measure, also temporary, involved a reduction in the amount of goods which Canadians travelling abroad are permitted to bring duty-free into Canada. These two measures were expected to lead to a significant improvement in the Canadian international account.

The third course of action involved reductions in Government expenditures amounting to $250,000,000, which, when combined with the import surcharges, were expected to narrow the budgetary deficit by about $450,000,000 in a full year. As a further financial measure, the Minister of Finance would earmark, for financing increases in the exchange reserves, Canadian dollar cash balances equivalent to the sales of exchange from the reserves.

The Prime Minister stated that at the time of the introduction of these measures Canada's official holdings of gold and U.S. dollars stood at approximately $1,100,000,000. At the beginning of 1962 they had been $2,056,000,000. To reinforce these reserves, Canada had arranged for international financial support for well over $1,000,000,000 in cash and stand-by credits from the International Monetary Fund, the Federal Reserve System of the United States and Britain, and the Export-Import Bank in Washington. After drawing $650,000,000 of these resources, Canada's official holdings of gold and foreign exchange at the mid-year were $1,809,000,000.

The measures reflected the determination of the Government to defend the foreign exchange value of the Canadian dollar established in May at 92½ cents United States funds. (See also Section 4, Part I of Chapter XXIII on Currency and Banking.)

The changes in Canada's total commercial and financial transactions with other countries which contributed to the necessity for these measures are presented in summary form in statements of the Canadian balance of international payments. The current account statement, covering all current exchanges of goods and services, indicates the main categories of transactions giving rise to receipts from and expenditures abroad, and the extent to which these are out of balance. The capital account presents an analysis of the movements of short-term and long-term capital that have occurred during a comparable period.

During the first quarter of 1962 Canada's purchases of goods and services from other countries exceeded Canada's sales by $363,000,000. Net movements of capital into Canada in long-term forms fell sharply from a quarterly average of over $150,000,000 in 1961 to $8,000,000, and capital movements in short-term forms, apart from changes in Canada's official holdings of gold and foreign exchange, led to a net capital outflow of $9,000,000. The official holdings of gold and foreign exchange had, therefore, to bear the full brunt of the deficit on current account of $363,000,000. In the second quarter the current account deficit together with net capital outflows led to an even sharper decline in Canada's official holdings of gold and foreign exchange, apart from the additional resources obtained under the emergency arrangements.

Each year since 1950, with the exception of 1952, Canada's current expenditures abroad exceeded external current receipts. The current account deficits that resulted in this period of rapid Canadian development were financed by inflows of capital. Current account deficits have customarily been associated with periods of Canadian prosperity. For example, the rate of Canadian growth of the 1950's, based on the development of new resources, provided the underlying element in the strength of Canadian demands for imported goods and services. High levels of investment at a time when defence expenditures were also very heavy, together with rising levels of consumption, contributed to the deficits. Until 1956 the deficits were not large in proportion to the high levels of total current transactions and capital inflows of a long-term type were large enough to finance the deficits in most years. In 1956 and 1957, as the result of continuing high levels of