

the balancing item representing the difference between the direct measurements of the current and capital accounts.

Although the economy showed strong resurgence in Canada in 1971, it was a year of crisis on the international economic front. Over a period of some years there had evolved a series of crises of confidence in the viability of the existing international financial structure and particularly the role of the US dollar within it. These recurring crises reached a new peak in the summer of 1971 and the United States introduced new economic policy measures on August 15 to improve its domestic and international economic positions. To cushion the effect on Canadian economic activity the Canadian government in early September introduced proposals for an employment support program. At the same time Canada participated actively in efforts to reshape the international monetary system. A package involving the realignment of most major currencies vis-à-vis the US dollar was worked out in Washington in mid-December. Included in the package was a commitment by the United States to change the price of gold from US\$35 an ounce to US\$38 an ounce. Currencies would be allowed to fluctuate within 2¼% above or below their new central rates. No central rate was established for the Canadian dollar. Bilateral trade negotiations were entered into by the United States to obtain some concessions from its major trading partners.

21.4.1 Current account transactions

During 1971 a current account surplus of \$401 million was recorded, about one third the 1970 surplus of \$1,082 million, which was the first positive balance since 1952 (Table 21.30). The surplus on merchandise trade dropped by 21% but remained well over the \$2,000 million mark. The non-merchandise deficit advanced slightly to \$1,996 million.

In comparing 1971 with 1970, however, it should be recognized that as far as merchandise trade was concerned, 1970 was an unusual year in a number of ways. In the first place, demand for Canadian products was influenced by foreign catch-up requirements of metals following the 1969 strikes in the mining industry in Canada. Wheat and barley shipments were influenced by drought conditions in other wheat-exporting countries and by the onset of the southern corn blight in the United States which led to lower barley yields there. Moreover, 1970 was a year of some sluggishness in the Canadian economy and the level of imports tended to reflect this situation. The strike in the automobile industry was another factor which reduced the level of imports more sharply than that of exports. In addition, the appreciation of the Canadian dollar following its floating in June of that year further tended to reduce the value of imports. Thus in 1970 the trade balance, partly because of these special reasons, reached the highest level on record at \$3,048 million. The deterioration in the 1971 current account balance resulted from economic slowdowns in some of Canada's overseas markets which adversely affected Canadian exports and from the boom in merchandise imports, especially from the United States and Japan, reflecting the increase in economic tempo in Canada.

There was a moderate increase of 6% in merchandise exports to \$17,929 million while imports, following a 1% decline in 1970, surged by over 12% to \$15,532 million. There were gains in trade of motor vehicles, engines and parts as exports expanded by 19% while imports jumped by 28% to produce an automotive trade surplus (adjusted for balance of payments purposes) of about \$112 million, down from about \$313 million in the preceding year. Sales of lumber, wheat, crude petroleum, rapeseed, barley and natural gas also recorded healthy increases, while exports of copper, fabricated nickel, iron ore and aircraft, engines and parts declined. On the imports side, crude petroleum, communication equipment, tractors, fabricated iron and steel, office machinery, electrical equipment, excavating machinery, wearing apparel, fabrics and synthetic yarn showed notable increases while aircraft, engines and parts, inorganic chemicals, metal working machinery and other types of industrial machinery recorded decreases.

Receipts and payments on non-merchandise transactions, excluding withholding taxes, both rose moderately with receipts at \$4,914 million expanding by one half of a percentage point more than payments which went up to \$6,910 million.

Interest and dividends received in 1971 totalled \$557 million. Nearly all of the moderate increase over 1970 was accounted for by a rise in earnings on official holdings of foreign exchange which in 1971 continued to be the major component in the interest receipts item. Total interest and dividends paid in 1971 were \$1,628 million. Reflecting mostly new issues of