

"White Paper" on language and culture from the provincial New Democratic Party government.

Horner's move has solidified factional alignments within the Conservative Party, centering precisely around the West and national unity. Former Prime Minister John Diefenbaker, speaking in Regina this week, called for a Parliament-centered unity conference in which all MPs would be urged to determine, through their constituents, the proper course to a strengthened confederacy. He urged all Canadians to make it known to French Canadians that they are a part of a united Canada. At least one western conservative MP has already made known the results of his constituency poll — overwhelmingly in favor of a united Canada.

On the other side, Alberta PC Premier Peter Lougheed, tied to the Rockefeller-controlled Imperial Oil (Exxon) Canada Ltd. has called for a decentralization of power and a significant shift of economic decision-making power away from Ottawa.

Cross-party factional alliances characterize the altered political line-up in Canada.

Relatively pro-federalist forces, including the Liberal Party's Trudeau wing, the PC's Diefenbaker-Horner factions and such forces as the Social Credit machine behind British Columbia Premier William Bennett, who is now pushing a pro-nuclear energy development policy, are pitted against the Trilateral Commission wing of the Liberals currently fronting John Turner from Vancouver as their prospective replacement for Trudeau, the Trilateral's PQ, the Clark leadership of the conservatives linked to Rockefeller through Imperial Oil, and the environmentalist swamp of the NDP. The shift from the issue of Quebec separatism to the fight for control of the western provinces was identified by Georgetown Center for Strategic and International Studies spokesmen last week as resulting from Trudeau's successful sidestepping of the confrontation course initially established by the Quebec PQ victory last November.

Conspicuously missing from the pro-federalist side, however, is a defined economic policy initiative which could unite the anti-Rockefeller factions in a coordinated offensive.

A Lull In The Currency Warfare Against Canada

For the last month the Canadian dollar has been stable at about \$.95, following the series of sharp attacks earlier in the year, which pushed the currency below \$.95 for the first time in years. The Canadian dollar's temporary respite reflects the present standoff between the Trudeau government — in particular, Canadian industrialist interests represented in the government — and the New York banks, who have not-so-hidden designs on Canada.

The Canadian dollar came under sudden attack earlier this year as Wall Street's way of telling Canada, the largest borrower on the international markets last year, to put its economy through a harsh "adjustment" process and simultaneously to back up the Carter regime in the U.S. in its economic warfare against the rest of the world.

To date, the beleaguered Mr. Trudeau has declared his allegiance to Carter in announcing on April 5 that Canada would continue to embargo uranium shipments to countries that refuse to sign Canada's impossibly restrictive safeguard agreements. However, Hean Chretien, Canada's Industry, Trade, and Commerce Minister immediately after the announcement called for an aggressive research and development effort within Canada; and opposition to U.S. Secretary Bergland's U.S.-Canadian wheat cartel scheme is so great among Canadian wheat producers that Otto Lang, the Brookings Institution-linked Canadian Wheat Board Minister, who supports Bergland's "food as a weapon" scheme, may be out a cabinet post at any time.

Canada's fiscal 1978 \$42 billion budget, which went into effect April 1, is another standoff. The Trudeau government clearly rejected Chase Manhattan Bank's late-March instructions to the country to follow a more stimulative course — the same unwanted instructions David Rockefeller has been giving West Germany and Japan, — even though such a course would hasten the Canadian dollar's demise. Chase argued that a cheaper

dollar would enhance Canada's export competitiveness. Similarly, Finance Minister McDonald and Prime Minister Trudeau rejected heavy pressure from Canadian corporatist layers to replace Canada's wage and price controls with tripartite economic planning. The budget, however, certainly doesn't represent a positive economic program and is at best a holding action awaiting a joint U.S.-Canadian economic development program.

The present vulnerability of the Canadian dollar stems from its "special" relationship to the U.S. credit system. Of course, in typical fashion Wall Street commentators blamed the series of runs on the Canadian dollar on the country's chronic current accounts deficit, its enormous foreign debt, the loss of competitiveness of its exports due to high wages and low productivity, political uncertainties in Quebec, and other "Latin American" problems. A feature article in Business Week in March singled out Canada's trade deficit in manufactured goods as the main problem and recommended that the manufacturing sector be deliberately phased out through mergers and shutdowns and that Canada be reduced promptly to the status of a Third World raw materials exporter. This is the identical policy which the Tories tried to impose on the young American republic two hundred years ago.

The sudden attack on the Canadian dollar last winter is actually largely explained by the fact that Canada was the single largest borrower in the international markets in 1976. In December, preceding the onslaught against the Canadian dollar, Morgan Guaranty's World Financial Markets ominously warned that Canada was one of several countries whose deficits had widened since 1974 which "appear to be achieving inadequate current-account adjustments on the basis of present policies and exchange rates." The screws have been put on Canada not because of any inherent problem in the Canadian economy, but because the U.S. dollar-based international

monetary system is hopelessly overstretched. Canada, like Mexico and Zaire, has been told by its creditors — through the runs on its currency and other tactics destabilizing the Trudeau government — to cut its borrowings and bite the bullet.

But even Canada's huge foreign debt, which amounted to over \$43 billion at the end of 1976, is solely the product of the financial environment in which the Canadian economy has been forced to operate for decades. Despite the highly visible, manipulated French-British antagonisms, Canada has had a colonial relation to the U.S. dollar credit system since right after World War I.

Canada's balance of payments problems principally derive from the fact that Canada has historically run a large deficit on its invisibles account — interest, dividends, shipping, insurance, etc. — which is the mirror image of the U.S.' invisibles surplus with Canada. Although historically Canada has run a sizeable surplus on its merchandise trade account with the U.S. (by far the Canada's main trading partner), Canada's large services deficit outweighed the surplus. Canada's invisibles deficit mushroomed in 1974-76 because of ever-rising interest payments on loans undertaken to close the current account deficit!

Canada's huge external debt and interest payments, larger than any Third World country's, is only half of the story. Canada is beset with the worst of both worlds. Its commercial banking system, dominated by the five large chartered banks, is more overexposed in the area of high-risk loans than their senior partners in the U.S. In January 1975 Lafferty, Harwood, the Montreal-based brokerage house, pointed out that the large Canadian banks were even more undercapitalized than their U.S. counterparts. Hence, the Canadian chartered banks were undertaking major, high-risk Euromarket lending from an even narrower capital base than the U.S. banks. As of the end of its 1974 fiscal year, the Bank of Montreal, ranking third among the chartered banks with assets of 417.7 billion, had an assets to equity ratio of 44 percent, compared to Morgan Guaranty's 18 percent. Lafferty, Harwood, concluded that with 27.6 percent of its assets in foreign loans, the ratio of loans subject to criticism to the bank's equity capital at the Bank of Montreal — and probably at all the chartered banks — was considerable in excess of 40 percent, the point at which the U.S. Comptroller of the Currency puts U.S. banks on its "watch list."

By the end of 1976 foreign assets accounted for 29.8 percent of all chartered bank assets, compared to 20 percent a decade earlier. At the end of 1976 only about 10 percent of the chartered banks' foreign assets represented loans to Canadian residents; over 50 percent were deposits with other banks (the volatile Eurodollar and Cayman Island interbank markets) and about 35 percent were unstable international loans in U.S. dollars and other foreign currencies.

Thus, the chartered banks, acting as adjuncts to the foreign lending operations of the New York banks, are not an inconsiderable part of the "balance of payments" problem. The chartered banks have increasingly shipped capital out of Canada and into Eurodollar and Cayman Island loans to Zaire, Peru, and other high risk areas as part of U.S. led consortia. This arrangement was given

added impetus in early 1974 when Canada was encouraged to follow the U.S. in lifting all the remaining controls on capital outflows.

Shipment of capital abroad by the chartered banks, especially since 1973, has been a drag of the capital account surplus, which has traditionally offset the current account deficit, and has been compensated for by increasing borrowings by Canadian corporations and provincial entities on the New York and Eurobond markets. These borrowings, in turn, have led to a steady worsening of the current account deficit.

In 1976 Canada chalked up a \$4,870 million deficit on current account. The \$1,482 million deficit in the fourth quarter was a new record. The reason for the deterioration in the fourth quarter was the exponential increase in payments of interest and dividends to foreigners, as well as a spurt in the travel deficit. Canada's invisibles deficit more than doubled from \$2,991 million in 1973 to \$6,002 million in 1976.

The minimal improvement from 1975's \$5,371 million in Canada's current account deficit was attributable to the \$1,132 million surplus on merchandise trade account, compared to a deficit on that account in the recession year of 1975. But with the trade surplus Canada was still left with a whopping current account deficit.

Last year Canada's current account deficit was more than offset by a net capital inflow of \$5,103 million. Following the pattern of most of the year, the net inflow of \$1,275 million in the fourth quarter was buoyed up by a record \$1,849 million of new issues of Canadian securities on foreign markets. However, the tenuous arrangement under which Canada's balance of payments deficit was papered over and under which Canada corporations were enabled to make ends meet has reached the breaking point. Wall street is now saying that the level of Canadian borrowing in 1976 is "unsustainable." Simultaneously, fastening on the excuse of the Quebec separatist movement, direct foreign investment in Canada (primarily U.S. investment) has dropped and threatens to drop even more sharply. In 1976 Canadian direct investment abroad actually exceeded foreign direct investment in Canada. This was due almost entirely to the fact that between 1975 and 1976 U.S. direct investment in Canada dropped sharply from a positive \$535 million to a negative \$576 million, reversing a long-term trend.

The February-March issue of International Currency Review, the City of London publication attributed the depreciation of the Canadian dollar in the first quarter to the series of reductions of the Bank rate (the sort of stimulative measure Chase Manhattan was recommending wholeheartedly), much diminished borrowing abroad, and the political uncertainties since the Quebec election. The second reason seems paradoxical until one remembers Canada's "special" relation with the U.S. The Bank of Canada has traditionally kept interest rates higher in Canada than in the U.S. to encourage Canadian corporations and provinces to borrow in New York to offset the current accounts deficit.

Now as a result of diminished borrowing abroad, everyone is expecting Canada's first quarter balance of payments figures to show a deterioration in the capital account, and the Canadian dollar has gotten creamed.

Provisional figures show that Canadian entities came

to the U.S. for only \$650 million in the first quarter of 1977, compared to \$5.7 billion during all of 1976. Last year Canadian borrowing on the U.S. private placement market grew 385 percent! — the entire market grew 375 percent. The private placement borrowings included the mammoth \$1 billion Hydro Quebec issue, the \$650 million Ontario Hydro issue, and the \$500 million British Columbia Hydro and Power issue. Total international borrowing by Canadian entities last year amounted to more than \$9 billion, according to a Morgan Guaranty survey.

After a difficult period earlier this year, when Canadian entities were faced with higher interest rates, rates have recently come down for Canadian borrowers along with everyone else. Also mitigating against the threat that Canada would be shut out of the market is the fact that if the New York banks were now to cut off credit to Canada, it would be tantamount to their declaring open war on U.S. industrialists, Canada's natural allies in its fight against the New York banks' designs.