Recent Economic Policy in Industrial Countries Abroad

The two most serious economic policy problems confronting industrial countries over the past year or so have been large international payments imbalances and accelerating inflationary trends. Major steps taken this year to resolve these difficulties have included the French devaluation in August, the German revaluation in October, and a gradual swing to monetary and fiscal restraint in all the major countries. While it is too soon to judge the ultimate results of these measures, exchange markets have recently been more orderly. The pattern of international payments has also benefited from a British swing into surplus after a period of heavy payments deficits. This welcome change stems in part from the 1967 sterling devaluation and a subsequent policy of increasingly severe economic restraint. On the other hand, the massive balance-of-payments deficit of the United States continues to be a major concern.

The external payments imbalances which the recent currency readjustments were designed to reduce have, of course, been rooted in the inevitable differences in economic conditions among the major industrial nations and in the varying priorities they have assigned to domestic policy objectives. In November 1968, when payments disequilibria were large and currency speculation intense, the strength of the mark reflected Germany's successful pursuit of price stability in the face of more inflationary conditions elsewhere. In France, on the other hand, massive labor disturbances in the spring of 1968 had resulted in large wage increases and other expansionary measures. Strong inflationary pressures in the United States were being reflected in current-account balance-of-payments deterioration, and rising consumer demand in Britain was slowing the realization of gains from that country's 1967 devaluation. (The trends in consumer prices and in the current-account balance of payments of the major countries are shown in Charts I and II.)

Following the Bonn conference of November 1968, all industrial countries took some measures to reduce payments imbalances. France and Germany adjusted their taxes to produce the effect of a small devaluation and revaluation, respectively, and the United Kingdom added a temporary boost to the import price effects of the 1967 sterling devaluation by requiring interest-free deposits on imports of manufactures. Further, while all countries turned toward economic restraint late in 1968 and in 1969, those where inflationary pressures had been strongest—notably the United States, Canada, France, and the United Kingdom—applied especially severe fiscal and monetary restraints. However, most countries found their monetary policy complicated by flows of funds through the Euro-dollar market. On the one hand, intensified monetary restraint in the United States caused large American banks to draw heavily on Euro-dollars as a source of funds to lend in the United States. On the other hand, there were intermittent but heavy speculative flows into German marks and out of French francs and other currencies. Both flows tended to raise Euro-dollar rates to levels higher than believed desirable in any national credit market. Countries losing funds acted to protect their domestic financial conditions and their foreign exchange reserves by direct control of international capital flows. Germany, by contrast, confronted with unwelcome capital inflows, took steps to discourage or rechannel them or, failing that, to offset their inflationary impact.

The recent French and German parity adjustments will, of course, contribute more substantially than the earlier measures could to reducing current-account balance-of-payments disequilibrium of those countries and of their trading partners. The adjustments have also reversed the disturbing speculative capital flows caused by anticipation of these moves. However, the accelerating pace of inflation in many countries during 1969 continues to retard international payments adjustment. Hence, most countries are maintaining or strengthening their policies of economic restraint.

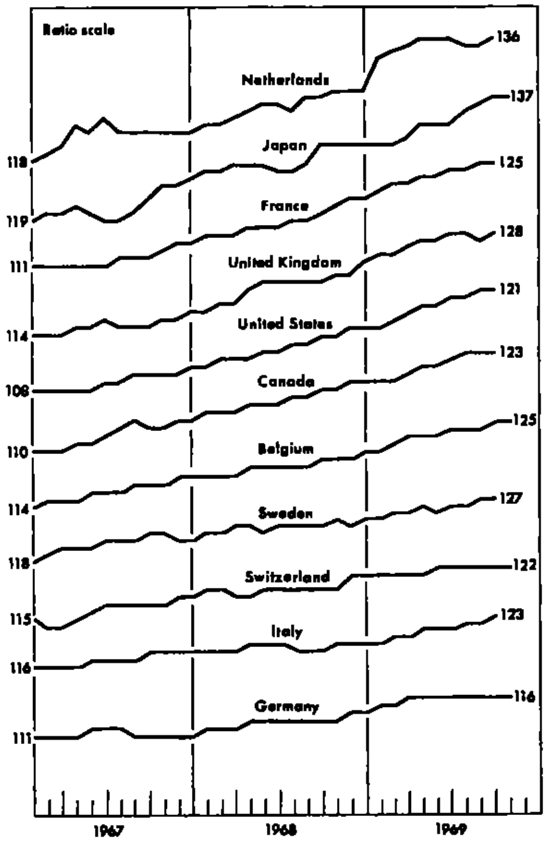
GERMANY

At the time of the November 1968 currency crisis, German economic policy faced a dilemma. There was a need, on the one hand, for domestic restraint to contain incipient inflationary pressures and, on the other

Chart 1

CONSUMER PRICES IN MAJOR COUNTRIES

1963=100



Note: The countries are ranked from top to bottom by the size of their overall price increases since the beginning of 1967.

Source: Organization for Economic Cooperation and Development; national statistics.

for ease to encourage capital outflows that would offset Germany's very large and persistent current-account surplus. It was widely assumed that this dilemma, arising from Germany's understandable reluctance to accept the degree of inflation prevalent in other countries, would be resolved by a mark revaluation. At that time, Germany was rounding out a year of industrial growth unequaled since 1951—an expansion spurred by rapidly rising exports (especially to the United States) and by the aftereffects of expansionary monetary and fiscal measures undertaken in 1967 to overcome the 1966-67 slump. As output pressed against capital and labor resources, price and wage increases did accelerate but remained less rapid than in most other countries, and the current-account surplus widened. The January 1968 switch from a turnover to a value-added tax system may also have contributed to this increased surplus. The change had little effect on export prices but gave rise to substantially increased border taxes on imports. Official efforts to offset the current-account surplus by encouraging foreign bond flotations were frustrated by offsetting short-term capital inflows arising from both cautionary leads and lags in current payments and outright currency speculation.

Although the German government decided against a full-fledged revaluation in 1968, it did reduce for a limited period of time the export rebates and border taxes associated with the value-added tax. The authorities hoped this *de facto* revaluation of about 3 percent for merchandise trade would significantly reduce the current-account surplus. But, since this process clearly required time, it remained necessary to balance the growing need for domestic restraint against the continuing need for large capital outflows. A moderate shift toward fiscal restraint served both domestic restraint and balance-of-payments purposes. The deferral and subsequent cancellation of about 2 percent of Federal expenditures that had been planned for 1969, an acceleration of corporate tax payments, and rising tax yields served to swing the cash accounts of the Federal and provincial governments (with whom tax receipts are shared) from deficit to surplus. These changes tended to reduce domestic demand for goods and services and, at the same time, made more room for foreign borrowing in German capital markets. The authorities also allowed domestic money and capital markets to be tightened by the unwinding of speculative mark positions and by a record volume of mark-denominated foreign bond issues early in 1969, and supplemented these influences in February by discontinuing open market support for long-term government bonds. By this past April, however, the rate of foreign bond issues had become so heavy that the semiofficial West German Capital Committee announced a temporary suspension of foreign issues and plans for slowing the future pace of such borrowing.

At about the same time, monetary policy was further complicated by another wave of massive short-term capital inflows spurred by doubts regarding the effectiveness of Germany's border tax adjustments in reducing its current-account surplus and reports that mark revaluation was under official consideration. As in November, the German Federal Bank attempted to discourage and deflect these inflows, but with indifferent success. Requirements that 100 percent reserves be held against increases in foreign-owned bank deposits tended to shift speculative inflows to nonbank channels. Providing German banks with forward cover at favorable rates encouraged bank placements abroad but may also have facilitated further capital inflows. (These swaps were sometimes suspended as in May.) Firm official rejection of the revaluation idea temporarily ended capital inflows in May, but the flows were only partially reversed in subsequent months. To reduce the inflationary impact of short-term capital inflows, the central bank raised deposit reserve requirements at banks and other financial institutions in June and again in August, and reduced rediscount quotas in July. It also raised the official discount rate—to 4 percent (from 3 percent) in April, then to 5 percent in June, and to 6 percent in September. As a result, the wide gap between short-term interest rates in Germany and those prevailing in other money markets in 1968 and early 1969 was reduced to small proportions (except *vis-à-vis* Euro-dollar rates). However, the differential between yields on mark-denominated and dollar-denominated Euro-bonds was little changed.

Despite these moves toward monetary restraint, bank liquidity continued ample, and money and credit tended to grow about as rapidly as the year before. As the strain on economic resources intensified, price and wage increases accelerated. Thus it seemed increasingly unlikely that Germany would regain the desired control over domestic monetary and price developments until the external value of the mark had been officially readjusted, or until internal inflation had eliminated the necessity for such a readjustment. In September, it was decided to allow the mark to "float" until after the establishment of a new government. Then, on October 26, the mark was officially revalued by 9.3 percent. As the outflow of speculative funds gathered momentum thereafter, the German Federal Bank reduced reserve requirements in November, and again in December, to steady the German financial markets. Very recently the central bank also raised sharply, from 7½ percent to 9 percent, its rate for loans against government securities and requested banks to exercise restraint in lending at home and abroad as well as to repatriate maturing foreign placements. To protect German farmers from lower price imports, a border tax, now 8½ percent, has been applied to agricultural imports since the mark rate was temporarily floated. This arrangement is expected to be superseded soon by a subsidy for German farmers to which the European Economic Community (EEC) would contribute.

FRANCE

At the end of 1968, France found itself headed for the inflationary end of the international price spectrum after several years on middle ground. The proximate cause was the Grenelle wage agreement, aimed at restoring industrial peace after the crippling student and labor disturbances of May and June. This agreement resulted in a 16 percent increase in wage rates during 1968. Faced with such a dramatic wage explosion, the official strategy for the period through November 1968 was to apply strong fiscal and monetary stimulus to push the economy toward fuller utilization of plant and labor resources than had prevailed early in the year. Improved price surveillance, temporary import quotas, export subsidies, and exchange controls (briefly) were employed to minimize transitional strains. It was hoped that the productivity gains resulting from rapid economic expansion would largely offset the rise in wages, thus preserving the real value of wage concessions and at the same time protecting France's trade position. The authorities expected to have taken up most of the slack in the economy by the end of 1968, at which time withdrawal of policy stimulus and protection was to result in a self-sustained and slower rate of expansion.

At the time of the Bonn conference, the effects of France's expansionary policy were beginning to emerge. Bank credits were about 25 percent higher than a year earlier, and industrial output was up 13 percent. Moreover, labor productivity in manufacturing was 15 percent higher than a year earlier, nearly sufficient to offset the [illegible] percent wage increases granted for 1968. However, the close to 5 percent rise in consumer and export prices during 1968 placed France in the forefront of inflationary countries, and the trade account was deteriorating as imports spurted ahead of exports. Then, just as France was completing the initial expansionary phase of her original program, the early November speculative rush into German marks, exacerbated by fears regarding the political and economic outlook for France, made serious inroads on France's international reserves.

Following the Bonn conference, the French government decided against a devaluation. However, tax changes were made which had a total effect on trade equivalent to a roughly 2 percent devaluation, and foreign exchange controls on capital transactions and travel were reimposed in tighter form. In addition, the authorities moved strongly toward monetary and fiscal restraint. Minimum reserve requirements and liquidity ratios were raised, discount quotas were reduced, and credit ceilings were imposed which, in effect, limited short-term bank credit to the private sector to temporary accommodation of seasonal needs. Also, the official discount rate was raised from 5 percent to 6 percent. Fiscal policy was adjusted by reducing subsidies to the nationalized gas, electric, and railroad industries and by increases in the value-added tax. In the hope that private investment would be maintained

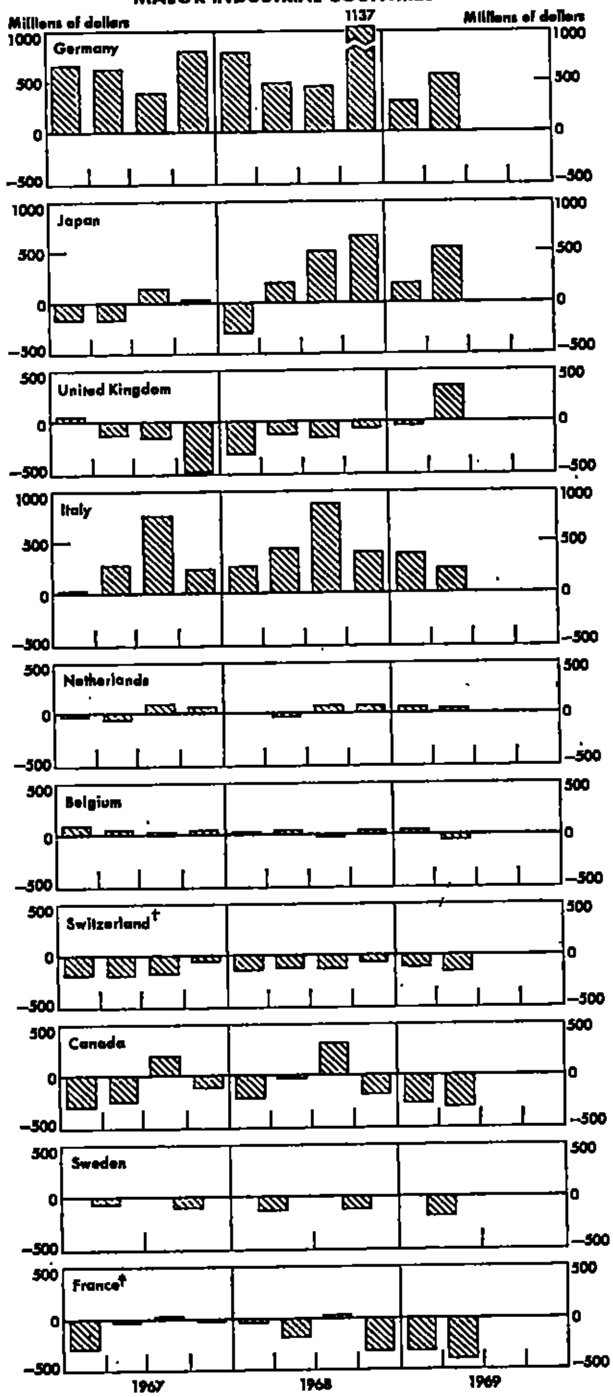
Despite the reduced rate of economic expansion, investment incentives were left intact.

During the first seven months of 1969, the French economy failed to respond to fiscal and monetary restraint as quickly as it had earlier to expansionary policies. Bank credit rose almost as rapidly as in 1968, partly because bank financing of the government—and others exempt from the credit ceilings—was heavier than anticipated, but the credit ceilings themselves were also breached. Further, the investment tax incentive had proved unexpectedly potent. Although initial labor-management discussions in March regarding a second nationwide wage adjustment had proved inconclusive, labor shortages were forcing locally negotiated wage increases running close to a 10 percent annual rate. Moreover, retail sales—especially of durable goods—continued to rise. Given these expansionary developments, imports continued upward and the trade deficit widened somewhat. In May, therefore, the authorities initiated a new series of restraint measures by tightening consumer credit regulations. In June, all bank credit ceilings were extended and the official discount rate was increased from 6 percent to 7 percent. In July, the government established a countercyclical investment fund which, in effect, postponed part of its expenditures until such time as the economy required a fiscal stimulus.

Early in August, following Mr. Pompidou's election as president, the new government devalued the franc by 11.1 percent. A month later it outlined the major features of its overall economic strategy. It intensified restraint on consumption by further tightening instalment credit restrictions for a five-month period and by offering new tax incentives to purchasers of life insurance and long-term fixed-interest securities. Previously revised bank credit ceilings were reinforced by tying the banks' important rediscount privilege to ceiling compliance. In October the official discount rate was raised to 8 percent. Although the brunt of the restrictive burden was borne by monetary policy, the government also impounded more public investment authorizations in the countercyclical fund, and—departing from previous policy—moved to dampen private investment by terminating the special tax incentive three months early in September. But devaluation was the keystone of the overall strategy. It was adopted in the hope that it would permit the shift of resources, required to produce external balance, to be made with less sacrifice of economic growth and, hence, with less ultimate damage to the French standard of living than would otherwise be the case. Although contributing to attainment of general balance-of-payments equilibrium, the French devaluation did upset the EEC policy of common agricultural prices, which were fixed in terms of a common unit of account.

Chart II

CURRENT-ACCOUNT BALANCE OF PAYMENTS OF MAJOR INDUSTRIAL COUNTRIES*



*Except for France and Switzerland.
† Trade account only; imports CIF, exports FOB.
‡ Trade account only; imports FOB, exports FOB.
Source: National statistics.

To avoid undue stimulation to French agriculture and heavier subsidy costs for its EEC partners, France was exempt from the uniform price requirement for twenty-eight months and was required to tax exports and subsidize imports in order to offset the difference between French and other EEC agricultural prices.

UNITED KINGDOM

By the end of 1968, a full year after the 14.3 percent sterling devaluation, the hoped-for balance-of-payments surplus had not yet appeared. Prior to devaluation the United Kingdom had suffered chronic payments deficits, partly as the result of a poor price and productivity record relative to her major competitors, especially Germany. This tendency had forced Britain to choose between a slow rate of growth, in the interests of external balance, and the payments deficits which attended strong economic growth. The government had expected that devaluation would resolve the dilemma and permit modest economic growth to coexist with a developing balance-of-payments surplus, needed to repay indebtedness incurred to finance previous deficits. The strategy, which was expected to produce a surplus by the second half of 1968, was outlined in the March budget presentation. The plan called for a maximum 4 percent growth in gross domestic product (GDP) from the second half of 1967 to the second half of 1968 and for a resource shift from consumption to exports and investment. Restrictive fiscal, monetary, and incomes policies were undertaken to reinforce devaluation by cutting back consumption. While the GDP target was achieved in 1968, the external basic balance was still slightly in deficit at the year-end. A major difficulty had been that domestic consumption had increased by 1 percent, rather than declining by 2 percent as planned, and had pulled in extra imports. In retrospect, the authorities recognized that sizable monetary expansion, despite ceilings on certain bank loans, had facilitated the breaching of the incomes policy and assisted consumer resistance to fiscal restraint.

In the light of the 1968 experience, a modified strategy was worked out between November 1968 and April 1969, when objectives for the year were set out in the budget message. Between the second halves of 1968 and 1969, real GDP growth was to be no more than 2.6 percent, real public and private consumption (taken together) were to be roughly unchanged, and the increase in investment was to be pulled back to less than 3 percent. Real imports were to be held level and, with rising exports, a current-account balance-of-payments surplus was expected to emerge in the second half of 1969. Measures to implement the new strategy took effect in the Novemb[er]-April period. To curb consumer expenditures, consumer credit regulations were tightened and purchase taxes on alcohol, gasoline, tobacco, and a broad range of durable goods were increased by 10 percent in November 1968. The April budget also raised the "selective employment tax" (which hits the consumers' services sector hardest). To reduce domestic investment incentives, special tax concessions were allowed to lapse in December 1968, and the new budget included an increase in corporate taxes. Attacking imports directly, a six-month interest-free deposit with the government, equal to 50 percent of the value of their imports, was required of importers of manufactures beginning in December 1968; the interest to be thus forfeited probably added 1 to 2 percent to the cost of imports.

More generally, the government aims—by means of fiscal, debt management, and monetary policy—to limit "domestic credit expansion" to no more than $960 million equivalent in the financial year ending in March 1970, compared with the $2.8 billion increase in the preceding year. This total includes credit extended to public and private borrowers by the domestic banking sector and foreign lending to the public sector (including public corporations). Fiscal policy—based on relatively stable expenditures and a rise in tax rates and tax yields—is designe[d] to permit a sizable reduction of government debt, inclu[d]ing that held by banks. Tax exemptions have been granted on capital gains from the sale of government bonds, with the intent of encouraging government debt ownership by nonbank investors. As for monetary policy, bank credit ceilings have been set in order to reduce loans to the private sector, and the buildup of import deposits in early 1969 absorbed substantial liquidity. (The deposit requirement has recently been renewed until the end of 1970 but at the reduced rat eof 40 percent of import value). The official discount rate has been maintained at 8 percent since February.

On the basis of fairly complete information about the first half of 1969, and preliminary indications for the second half, it appears that the British economy is, in the main, holding to the course plotted. "Domestic credit expansion" is running well below the intended limit, with a sharper than planned reduction in government borrowing more than offsetting continued breaching of credit ceilings. Consumption and investment are probably close to planned levels, and output is rising modestly. The tendency of exports to hold their own in rapidly expanding world markets (in contrast to many years of declining shares before devaluation), and the stability of imports in 1969, helped to swing the basic balance of payments to a $686 million surplus in the second and third quarters of 196[9] taken together. This is close to the $720 million balance-of-payments surplus originally hoped for in the year ending in March 1970. At present, therefore, the United Kingdom appears to be achieving modest growth and a balance-of-payments surplus.

ITALY

Despite Italy's expansionary monetary and fiscal policies and strongly rising exports in 1968, domestic demand and imports continued sluggish through much of that year and price increases remained moderate. Although the current-account surplus had increased, political uncertainties stimulated a capital outflow so large that the financing of domestic investment may have suffered. Furthermore, uneven regional growth and continued unemployment were contributing to growing social unrest. In view of all of these factors, Italy's economic policy remained predominantly expansionary well into 1969. Considerable reliance has been placed on increases in government expenditures which have recently been directed largely to raising old-age pensions and the wages of government workers. The Bank of Italy continued to encourage domestic credit expansion but, at the same time, took steps to force repatriation of bank funds and discourage capital outflows. In March, commercial banks were requested to bring their net foreign position into balance by the end of June, while their participation in international bond consortia was temporarily suspended. The purchase of foreign mutual fund shares was restricted. To reduce the differential between domestic and foreign interest rates, the Bank of Italy withdrew support from the treasury bill market.

During the early months of 1969, domestic consumption responded strongly to expansionary policies, price and wage increases accelerated, and there was some reduction in Italy's current-account surplus. In view of developing inflationary pressures and continued heavy capital outflow, the Bank of Italy in July raised from 3½ percent to 5 percent its official penalty discount rate for banks whose average rediscounting during the preceding six months exceeded 5 percent of their minimum reserve requirements. On August 14 the basic discount rate for banks not subject to this penalty was raised from 3½ percent to 4 percent, the first change since June 1958.

OTHER EUROPEAN COUNTRIES

During 1968, strongly rising demand in the larger industrial countries had been rapidly transmitted to the smaller industrial countries of Europe—the Netherlands, Belgium, Sweden, and Switzerland. By the end of the year, plant capacity was becoming strained, labor shortages were emerging, and price and wage increases were accelerating. As restrictive monetary policies initiated in the larger countries late in 1968 began to affect the money markets of the smaller industrial countries, they also moved toward monetary restraint. Thus, official discount rates were gradually shifted upward, but the timing and the size of the rate changes were, of course, influenced by differing domestic considerations. The National Bank of Belgium made an upward discount rate adjustment in December 1968 and again in March, May, July, and September 1969 for a total increase of 3¾ percentage points to 7½ percent. The Netherlands Bank raised its discount rate in December, April, and August 1969 for a total of 1½ percentage points to 6 percent. Sweden, whose business cycle lagged somewhat behind that of other countries, moved in February and July to raise its discount rate 2 percentage points to 7 percent. In Switzerland, the authorities permitted the interest rate on three-month commercial bank deposits to move upward by 1 percentage point to 5 percent in the first six months of this year, but did not adjust the official discount rate until September, when it was increased by ¾ percentage point to 3¾ percent. (This was the first change in the official discount rate since the ½ percentage point reduction in July 1967.)

Since none of the monetary authorities of these smaller European countries were prepared to accept a level of interest rates as high as that in the Euro-dollar market, measures were taken to pull back short-term capital previously placed in that market. In April, the Belgian central bank requested commercial banks to cut nearly in half by the end of June important components of their foreign exchange position. In August, the central bank abandoned its preferential discount rate for certain export paper and tightened foreign exchange regulations. Also, the Netherlands Bank, in July, obtained a voluntary agreement from commercial banks that they would cut back their foreign exchange position during the second half of the year. In Sweden, capital flows were already subject to exchange controls, but these controls were applied more strictly in 1969 than earlier.

Introducing an element of credit rationing, the monetary authorities also established a ceiling on the permissible expansion of bank credits to the private sector. The Netherlands Bank obtained agreements from the commercial and agricultural credit banks which limited their 1969 short-term credit expansion to 10 percent. The National Bank of Belgium imposed ceilings on both the rediscount privileges it extends to commercial banks and the permissible volume of commercial bank loans outstanding. Sweden's Riksbank in July recommended a cutback in most bank credit. The Swiss National Bank had hoped for parliamentary approval of a proposed law which would have given the bank added powers, including the right to set mandatory credit ceilings. After the proposal was rejected in June, the central bank developed the customary "gentleman's agreement" limitation on bank credit.

In most cases, fiscal policy has also moved moderately in the direction of restraint. The general approach has been to limit the increase in expenditures, rather than to make any major changes in tax rates. However, the Netherlands and Sweden, as previously planned, switched from a turnover to a value-added tax, which the EEC countries and some other European countries are in the process of adopting. In the inflationary atmosphere which existed in the Netherlands when the tax change was launched, the tax was often simply added to the sales price. This helped produce a 6 percent increase in consumer prices during the first four months of 1969, which in turn necessitated sizable compensatory wage increases. To arrest the inflationary spiral, the Netherlands authorities imposed a comprehensive price freeze from April to September. In view of the Dutch experience, Belgium and Italy have announced plans to postpone their planned changeover to a value-added tax until inflationary pressures in their countries have abated.

Economic developments in the smaller industrial countries of Europe reflect both the timing and the character of the restraint measures adopted. Belgium, Switzerland, and Sweden continue to experience lower than average increases in consumer prices, while Dutch prices, after an initial increase, were stabilized by the freeze. The current-account balance of payments of Sweden, Switzerland, and Belgium deteriorated somewhat in the first part of 1969, but the Netherlands current account improved.

JAPAN

The 1968 rate of industrial growth in Japan, had, as usual, exceeded that of any other industrial country, and wages in manufacturing also rose faster than in most countries. In the export and capital goods industries, these increases were apparently covered by productivity gains so that prices remained stable; but, in the less dynamic consumer goods industries, wage increases produced a substantial rise in the cost of living. Because of rising exports to the United States, Southeast Asia, and the Middle East, and long-standing import restraints, the current account had improved strongly. In view of this generally favorable situation, Japan made no substantial change in fiscal policy in 1969 and continued until late the year the moderately expansionary monetary policy to which she had turned in September 1968. Since the current account continued strong, the authorities sought to offset this by stimulating capital outflows. The Bank of Japan, in April, issued a "yen shift" guideline to the banks, encouraging them to reduce liabilities to foreigners and to assume the financing of foreign trade previously financed abroad. The ensuing yen shift, which exceeded $700 million in the second quarter of the year, temporarily reduced official reserves.

By the summer of this year, signs of domestic strain and inflationary pressures began to emerge, and on September 1 the Bank of Japan moved toward restraint, raising the discount rate from 5.84 percent to 6.25 percent. The development of domestic inflationary pressures, without any accompanying current-account deterioration yet apparent, is a novel experience for Japan. The persistence of the payments surplus has stimulated considerable discussions as to whether any change in trade or domestic development policy, or further promotion of capital exports, is required in the interests of external equilibrium or whether further reserve accumulation would be desirable.

CANADA

The Canadian economy had moved ahead very briskly in 1968, stimulated by rising exports to the United States and by a construction boom. Monetary policy had been easy since midyear and, although the government had planned to eliminate its fiscal deficit, rising prices and unexpected difficulties in cutting back expenditures frustrated that intention. Both price and wage increases quickened disturbingly. In 1969, therefore, both fiscal and monetary policy moved toward restraint. The government's cash budget swung into surplus, owing to firm expenditure control and to higher tax yields and tax rates. Deferral of capital cost allowances provided a tax disincentive to commercial construction. On the side of monetary policy, the Bank of Canada followed international interest-rate trends quite closely, raising the official discount rate from 6 percent to 6½ percent in December 1968, to 7 percent in March 1969, to 7½ percent in June, and to 8 percent in July. However, it proved possible to hold Canadian interest rates somewhat below Euro-dollar levels. In part this was because guidelines for banks, other financial institutions, and nonfinancial corporations limited investment in Europe. (These guidelines were originally established in 1968 to prevent an outflow of capital from the United States through Canada to third countries.) In July, the central bank created a further barrier to capital outflow by imposing a freeze on "swapped deposits",[1] which had financed substantial capital outflows to the United States and Europe. As the result of fiscal and monetary restraint, the growth of bank credit, which had been very strong in the winter and spring, tapered off at midyear. However, inflationary tendencies have not abated. A wave of strikes, especially severe in the mining and metal industries, held back industrial growth. Strike settlements in October and November, which resulted in large wage and price increases, threatened a further inflationary surge. A Prices and Incomes Commission, established in the summer to study the inflation problem, has proposed a system of voluntary restraint for both wages and prices. This idea has met with considerable resistance, especially from the labor unions.

[1] A "swapped deposit" is a United States dollar-denominated time deposit accompanied by a United States dollar-Canadian dollar swap which leaves the depositor with Canadian dollars at the end of the term.