

the United Kingdom, a very large proportion of the surplus sterling exchange which we obtain and which formerly we were able to convert into United States dollars in order to meet any adverse balance of payments with that country can no longer be so converted.

Since the United Kingdom could not supply us with goods to pay for all her purchases here, and since, as I have just explained, the sterling with which she was able to pay for these purchases could not be converted into dollars in the normal way, other measures were necessary. The Canadian government undertook to buy and use this sterling in buying Canadian securities from Britain and thus to provide our exporters with Canadian dollars in payment of their exports. While such purchases of Canadian securities held in London will strengthen our long-run financial position on international account, nevertheless two immediate problems face us. In the first place, our domestic market must absorb new securities to a corresponding amount. In the second place, the fact that the surplus sterling arising from our trade with Britain cannot be converted into United States dollars and must be used up by repatriation of securities means that our increased sales to Britain do not help us, as they would in normal times, to pay for the heavy imports of which I have spoken from non-empire countries. The result is that we must find from some other source the United States dollars needed to pay for the greater part of our imports from that country.

To illustrate this exchange problem, let me give in a little more detail the trend of our war-time import and export trade. Comparing the eight months of war ending April, 1940 with the corresponding eight months ending April 1939, Canadian imports from non-Empire countries increased by \$171 million, while our exports for the same period to non-Empire countries increased by only \$86 million. In other words, an adverse merchandise balance of only \$18 million in the 1938-39 period had increased to an adverse balance of \$102 million in the 1939-40 period. These figures cover only merchandise trade. There are, of course, other important items which increase our net credits in our accounts with non-empire countries, namely, the export of gold, the expenditures of tourists in Canada, and the curtailment, due to the prompt establishment and efficient operation of the Foreign Exchange Control Board, of the export of capital from Canada. There has also been a small but encouraging inflow of capital from the United States. Nevertheless, it is obvious from an examination of these trade figures that rising business activity and expanding consumer

[Mr. Ralston.]

expenditures in conjunction with failure of empire sources of supply have led to a very great increase in our adverse balance with non-empire countries.

More recently, and despite the utmost care in selecting as far as possible Canadian sources of supply, the government's war orders have contributed directly and indirectly to this increase in imports from hard currency countries. It is apparent that already there has developed, between consumers and private business on the one hand, and the government and firms supplying government orders on the other, an active competition for foreign exchange with which to purchase imports. The problem of policy thus posed is not one of maintaining an exchange rate. The powers of the Foreign Exchange Control Board are quite adequate to do that. The problem is to ensure that, in handling the supply of foreign exchange which may be, from time to time, available, war requirements shall take priority over other requirements, and that to some degree also the requirements of industries which are exporting goods and therefore assisting us to acquire foreign exchange, shall take priority over the requirements of domestic trade. I have dealt with this aspect of our exchange position at some length because it furnishes the background for some of the proposals which we intend to make.

But before I leave this subject of foreign exchange I should say just a word regarding our system of foreign exchange control. Within a week of our declaration of war, the Foreign Exchange Control Board was established and given the necessary powers subject to the direction of the Minister of Finance, to regulate all foreign exchange transactions between residents of Canada and the outside world. Detailed plans for the establishment and operation of such a board has been prepared in advance, in case it should be needed, and, once the need was apparent, the Board swung into effective action very quickly. The Board immediately took over as its initial resources the exchange fund which was created under the Exchange Fund Act of 1935. Subsequently on April 30th an order was made requiring all Canadian residents to sell their holdings of foreign exchange to the Foreign Exchange Control Board before the first of June. Those who in complying with the order could demonstrate a need for foreign balances in order to carry on their normal business transactions, such as commercial and insurance companies doing business abroad, have been permitted by the board to retain such amounts as are considered necessary for this purpose. The private holdings of foreign exchange so transferred to the board were of