ing a reasonable level of costs by means of subsidies on essential imports will be kept within manageable proportions.

Another benefit from this change will be that prices of goods which we normally buy from England, France and a number of other countries will now be more in line with our prices with the result that we will receive more goods from them. They will receive more Canadian dollars from their commerce with us and so be less dependent on inter-governmental loans to finance their purchases from us.

Before dealing further with the question of exchange rate, it will be convenient here to comment on the policy with respect to subsidies. The change in import price policy does not affect imports of materials basic to the cost of living which are presently being subsidized. We may find it necessary to increase these subsidy payments, notwithstanding the government's desire to reduce and ultimately eliminate all wartime subsidies of this character. And the same will be true of certain important domestic subsidies. It had originally been intended that the prices board would be able to withdraw from practically all subsidy arrangements by the end of 1946, and actually a good deal of progress has already been made in this direction. However, as I have said, the government feels the time is not opportune for any further major removal of subsidies and, having in mind the likelihood of rising prices in foreign markets, it is possible that we may not be able to reduce our total subsidy bill for this current year to the extent that we had expected.

I come now to the question of the exchange rate. The other proposals, it might be said, are principles of policy, and make for greater administrative efficiency, and for greater public assurance as to what is under price control, and as to how that control is to be exercised, but they do not actually attack the inflationary pressures at their source, except perhaps through subsidies.

Undoubtedly the greatest present source of inflationary pressure lies in the high and still rising price levels of other countries. Prices in other countries directly affect the prices of our exports and imports, and ultimately, through their influence on costs, affect the prices of virtually all our goods and services. Foreign prices are translated into Canadian equivalents through the medium of the exchange rate, and the question of the appropriate rate of exchange for the Canadian dollar is a matter of major importance in its own right, as well as in relation to price control.

Our present situation is that a very marked difference has developed between the general price levels of Canada and the United States, especially if American prices are translated into Canadian funds by the addition of 10 per cent exchange premium. The depreciation of the Canadian dollar by 10 per cent at the beginning of the war caused an immediate increase in many of our prices as compared with the United States. In the course of time our entire price structure might have reflected, on the average, the full 10 per cent difference in the values of our two currencies. The application of price ceilings, however, came sooner in Canada, and had a more restraining influence on price increases here than in the United States. The result was that by the end of the war our general level of wholesale prices had increased on the whole no more than theirs, despite the 10 per cent exchange differential. In respect of retail prices and the cost of living the disparity is even more marked, for the United States index had by May of this year increased 33 per cent over the level of August, 1939, compared with an increase of 21 per cent in Canada.

It has become increasingly clear that we could not continue to maintain a price structure which is roughly 10 per cent out of balance in terms of our exchange rate, or, looking at it the other way round, to maintain an exchange rate which is roughly 10 per cent out of line with our price structure.

If world prices, or at least American prices, had declined soon after the war, or showed any likelihood now of an early decline, no doubt it would be better for us to continue without changing the rate; but instead United States prices and costs have risen, and it is most unlikely that a major decline of the general price level can occur during the transitional period when both the foreign and the domestic demand for goods is so strong.

Accordingly, when this trend became clear, we were faced with the alternative of either changing the exchange rate, or of setting in motion, as the process of decontrol continued, an increase in our own price and cost structure, more or less to the American level plus 10 per cent. What this last would mean in terms of high cost of living, social unrest, and wage conflicts, can readily be imagined. The government has decided that such an extra measure of inflation, additional to whatever price increases may otherwise be necessary if we are ever to complete the adjustment to post-war conditions, would have the most serious disruptive effects on the entire economic and social structure of our country, and must be prevented by the only action which in the long run can prevent it.

There are a number of further points I should mention, to avoid misunderstanding. I would not want anyone to think that by this