

forced to embark upon the production of many articles which, because of limited demand, could only have been produced at high cost, and over a considerable period of time. Canada also lacks certain essential raw materials which must be procured from the United States. Since the outbreak of war, we have steadily expanded our purchases in the United States of these essential tools, machines and materials which were required both for our own Canadian war effort, and in the production of war supplies for Britain.

Even in normal times Canada purchases much more from the United States than we sell to our neighbours. In peace time we were able to make up the deficit by converting into United States dollars the surplus sterling we received as a result of the sale of goods to Britain. But from the outset of war, this has been impossible. The government realized at once that Canada would be faced with a growing shortage of United States dollars to pay for our essential war purchases. To conserve the necessary exchange the Foreign Exchange Control Board was established on September 15, 1939. As the need has grown, increasingly stringent measures have been adopted to reduce the unessential demands for United States dollars in order to conserve sufficient funds to make our payments for essential weapons and supplies of war. These war purchases could not be reduced without a corresponding, or perhaps an even more serious reduction in our war effort. Despite the drastic measures taken to conserve exchange, the lack of United States dollars was becoming, as one writer expressed it, one of the most serious "bottlenecks" in Canada's war effort.

Risk of wasteful duplication of production

The problem of exchange was the most urgent problem we faced in our economic relations with the United States. But we also realized a growing danger of possible unnecessary duplication of production facilities on the North American continent, with consequent undue pressure on scarce labour and materials if Canada and the United States each tried to make itself wholly self-sufficient in the field of war supplies. We felt it imperative to avoid such waste, which might well have had the most serious consequences. The experience of the Department of Munitions and Supply, and the studies of the Permanent Joint Board on Defence, both suggested the same solution. That solution was the co-ordination of the production of war materials of Canada and the United States. This was in reality a simple and logical extension, to the economic sphere, of the Ogdensburg Agreement.

The practical experience of a year and a half of organizing and developing war production in Canada revealed that many of the essen-