barriers represents a greater percentage decrease in national income than for almost any other country in the world. Canada is interested in having these barriers removed on a multilateral basis because of the wider benefits conferred and because her own dependence on external trade makes her a weak bargainer in bilateral negotiations. For this reason, Canada has supported strongly international efforts under the United Nations to unfetter world trade, as will be pointed out in later sections.

Canada is now in the process of making fundamental adjustments in her internal economy and her external trade to meet the emerging post-war pattern of world trade. At present these adjustments receive their most concrete expression in the steps being taken to meet Canada's foreign exchange difficulties.

Canada's Foreign Exchange Difficulties

Since the end of the war, Canada has had to face, in common with practically all other countries of the world, a serious foreign exchange problem. There are three reasons for this. In the first place, the value of imports in 1947 was about $3\frac{1}{2}$ times its 1939 level compared with a threefold increase for exports. Secondly, and more serious, about four-fifths of the imports came from the United States and had to be paid for in hard currency as against two-thirds before the war. Thirdly, the volume of exports to the United States is now one-quarter of total exports against more than one-third before the war. In relative terms, therefore, Canada is now obtaining less foreign exchange on current account than before the war to pay for imports from the United States. To aggravate the situation, Canada is financing a substantial part of the exports to wartime allies under reconstruction loans, so the amount of hard currency received from her exports is correspondingly less.

From the end of the war to November, 1947, the gap between income and expenditures on international commodity trade was filled through use of American funds left to Canada by American tourists, by drawing on a reserve of gold and American dollars built up during the war and a few minor sources. The gap was so great in 1947 that the reserve of gold and American dollars was reduced by $750 million and at the end of the year only $500 million was left. Under the circumstances it was necessary to take emergency action to protect Canada's credit standing abroad.

The course of action decided on was aimed not only at meeting the immediate emergency but at meeting it in terms of long-run adjustments that would have to be made if foreign trade is to serve adequately Canada's needs. The object was to increase foreign exchange balances, firstly, by importing less from the United States where payment has to be made in U.S. dollars; secondly, by importing more from countries where payments are made in other currencies, particularly pounds sterling; thirdly, by exporting more to areas where payments are made in U.S. dollars; and, fourthly, by reducing the amount of credit extended to other countries. The effect of this policy will be to re-orient Canada's internal and external trade, consumers' purchases, investment program, and production program. This indicates clearly that Canada recognizes the fundamental changes that she must make if she is to maintain a high and stable level of income and employment.

The emergency elements in the program, which will be dropped as soon as possible, are control of imports, restrictions on extension of credit to foreign governments, and permitting Canadian tourists to take only a limited amount of money out of the country. The start on the European Recovery Program in mid-year 1948 provides an additional form of foreign exchange assistance to Canada, by financing part of her overseas shipments that have been financed by means of Canada's reconstruction loans.

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