one type of war goods for another between two countries which were the largest net suppliers of war goods to the allied belligerents.

In the years after 1942, there were two rather important developments which arrested the decline in Canada's exchange reserves and which subsequently led to a very considerable increase in our holdings of gold and U.S. dollars. The first of these was the extremely large sales of grain crops, particularly coarse grain, to the U.S. in 1943 and 1944 to make good the deficiency in foodstuffs caused by the drought in the American corn belt in those years. The second was a very large investment of American capital in Canada. This investment took the form of the purchase by Americans of Canadian securities. At first, the interest of American investors was centered on Canadian securities which were payable or optionally payable in U.S. funds. Later, when it came to be felt that we had passed the hump of our exchange difficulties and as Canadian fiscal and price control policies came to receive widespread and on the whole favourable attention in the U.S., American investors developed an appetite for Canadian securities payable in Canadian dollars. To some extent, these investments no doubt reflected an anticipation (subsequently, of course, justified by the event) that the Canadian exchange rate would return to parity. Whatever the reasons may have been, it is the case that in the course of the war Americans added to their holdings of Canadian securities by an amount of roughly $500 million, and we had this cash in the till at the end of the war. In addition, American-owned corporations in Canada ploughed back earnings which could have been taken out in U.S. funds to an amount of approximately $250 million in the course of the war.

The result of all these factors was that Canada emerged from the war with very large reserves of gold and U.S. dollars. At the end of 1945, these amounted to approximately $1,500 million compared with holdings of $400 million at the beginning of the war. It should be noted that this increase in our cash holdings did not represent a genuine improvement of this amount in our whole international position because of the extent to which it resulted from the forms of borrowing to which I have already referred, namely the sales of securities by Canadians to Americans and the re-investment of branch plant earnings in Canada. However, the existence of these large international reserves did give the Canadian Government considerable freedom of action in its international and national economic policy during the first couple of years after the end of the war.

In the field of domestic economic policy, the freedom of action was used to do away, at a relatively early stage, with wartime exchange restrictions. The travel restrictions were relaxed as early as May 1944 and after a year were virtually abolished. The import restrictions were removed in 1944. The exchange rate, as you know, was restored to parity in July 1946 in an effort to protect the Canadian economy from the full impact of the inflationary rise in prices which was developing in the U.S. These measures which were in accord with the Government's policy of orderly de-control were facilitated by the adequacy of our foreign exchange reserves at the war's end.

In the field of international financial policy too, our large cash reserves gave us a considerable freedom of action. I mentioned at the beginning of this lecture that two of the characteristic features of the Canadian economic background are the great importance of foreign trade in our economic life and the high degree of unbalance in our trading relationship with the U.K. and Western Europe. These two background factors have made it an imperative necessity for Canada to contribute in every possible way to the economic reconstruction of the despoiled and distorted economies of the U.K. and Western Europe. For the same reasons it is clearly in our interest to work for the attainment of conditions which would encourage the development of a large volume of international trade on a basis which would not require the bilateral balancing of accounts.