the dollar-area market. However, the capital goods import restrictions, in addition to the saving in U.S. dollars, will permit the direction of our plant and capital expenditures from non-essential construction to construction that will enable us to get over our U.S. dollars shortage as soon as possible. In other words, the criteria for judging the essentiality for projects for which capital goods import permits will be granted, are: Does the project provide for production of goods to meet export demand. Does it provide for the economic continuation or expansion of industries for producing goods which we would otherwise import or, is it essential for the maintenance of a public service.

It is still too early to hazard a guess on how soon our gold and U.S. dollar reserve will be raised to the point where import restrictions can be dropped. The immediate result seems to be favourable. In the three months, September to November, total exports exceeded total imports by $30 million, which was less than half the total of a year earlier. In the three months following the establishment of import restrictions, that is, December through February, the favourable balance was $130 million, double the balance of a year earlier. On our trade with the United States, which is the crux of the foreign exchange problem, an unfavourable balance of $140 million in September-November 1946, had increased to nearly $240 million in September-November 1947. In the three months following restriction of imports, the unfavourable balance was $115 million, which can be compared with an unfavourable balance of $180 million a year earlier. Similarly, there has been an increase in our holdings of gold and U.S. currency. This reserve dropped to $460 million in mid-December, and increased to nearly $530 million at the end of February, not including $50 million drawn on the loan from the American Export-Import Bank.

While these are hopeful signs, it must not be assumed that our foreign exchange problem is solved when our reserve of hard currency has been built up to a level that will permit the removal of import restrictions. In the absence of the other corrective actions I have mentioned as part of Government policy, we would only plunge into another exchange crisis. In the first place, our imports stand at a very high level relative to exports in periods of prosperity. Since the bulk of these imports will continue to come from the United States, the pressure will still be on us to find U.S. dollars to pay for them. As long as we continue to send a large proportion of our exports to non-dollar areas, the possibility of our finding enough U.S. dollars is not good, unless the leading currencies of the world are freely convertible on a stable basis. The world's monetary experience following the First World War tells us this will be a long time.

The re-orienting of Canada's external trade in accordance with the more long-term adjustments I mentioned earlier is not something that can be done in a day. It involved many types of action on the part of both government and business. It also involved re-orienting our internal trade and the pattern of production. I have time to draw to your attention only three examples - investment policy, removal of barriers, and the World Fair. Before the war ended, plans were formulated and put into operation by the Government to convert the huge war production facilities into facilities for production of peacetime goods, and to keep it developing in the direction that would prove of greatest benefit to Canada. Partly as a result of Government