Canadian dollars experienced during the war period by the British Empire and Commonwealth after they had used up all their earnings of Canadian dollars, including as much as approximately $2,600 million resulting from Canada's military expenditures overseas.

This net deficiency of $6,000 million was covered in a variety of ways. At the beginning of the war, we undertook to provide the British with Canadian dollars by redeeming in advance of maturity all outstanding sterling issues of the Dominion Government. In this way, approximately $700 million of Canadian Government securities previously held by the U.K. investors were repatriated and the British put in possession of the counter-value in Canadian dollars. A second technique which was used in 1941 was the accumulation by the Foreign Exchange Control Board of sterling balances. These balances were subsequently converted into a $700 million interest free loan to the British Government with the understanding that any Canadian dollars which the British obtained as a result of the sale by their nationals of Canadian securities in Canada would be applied in reduction of the loan. In this way, the loan has been reduced to about $370 million as at the end of 1947. In 1942 a gift of $1,000 million was made available to the U.K. to assist her in making purchases in Canada and when this was exhausted the Mutual Aid Act was adopted, under which goods to a value of $2,200 million were made available to the sterling area (and a further $200 million to certain Western European countries). Of the total Canadian dollar deficiency of $6,000 million experienced during the war by the sterling area, only approximately $500 million, or less than 10%, was met by payment of cash in the form of gold or U.S. dollars to Canada.

The wartime developments intensified the bilateral unbalance in Canada's international accounts which I referred to earlier. As we developed our production for war purposes, we found it necessary to import larger and larger quantities of goods of all sorts from the U.S. The surplus with the U.K. did not result in American dollars and our need for American dollars was intensified. Accordingly, it became necessary to take special steps to protect our U.S. dollar position.

The first step taken was the establishment of Foreign Exchange Control in Canada and the stabilization of the Canadian exchange rate at the level of 10% discount on U.S. funds. The purpose of the institution of exchange control was to enable us to control capital movements and thus to ensure that panicky liquidation of Canadian investment on the part of foreigners or apprehensive acquisition of foreign assets on the part of Canadians did not intensify the demand on our limited U.S. dollar resources. The rival claims in the form of payment for imports and for servicing of the large foreign investment in Canada were regarded as more important and the institution of Foreign Exchange Control enabled us to make effective a system of priorities in this field. During the first 18 months of war, our foreign exchange reserves were subject to very heavy drains, and it was necessary to place severe restrictions on the use of U.S. dollars. Under the War Exchange Conservation Act of 1940, a whole range of luxury and non-essential goods were prohibited import into Canada, and in the summer of 1940 a complete ban was placed on the use of U.S. funds for pleasure travelling. These measures, drastic though they were, did not stop the decline in our exchange reserves, which at the end of January 1941 reached a low level of $174 million, or only enough to pay for approximately ten weeks imports from the U.S. at the then current rate of import. Fortunately, at that time, we negotiated with the U.S., the Hyde Park Agreement which provided for the manufacture by Canada for sale to the U.S. of a wide range of war materials and war supplies. In the course of the next few years over $1,000 million worth of goods were sold to the U.S. by virtue of this arrangement. The cash we received enabled us to pay cash for our imports of war goods from the U. S. which, incidentally, were substantially in excess of the figure I have mentioned for our sale of war goods under the Hyde Park Agreement. In essence, the Hyde Park Agreement was a mutually advantageous swap of