

the dollar area increased. The increase in sterling area reserves which had amounted to \$458 million in the first quarter of 1951 amounted to only \$109 million in the second quarter. Reserves rose at June 30 to what is probably their peak for this year of \$3,867 million. Although the figures have not yet been finally calculated, it is expected that there will be a large decline in sterling area reserves in the third quarter.

It is perhaps not so widely recognized in this country, that the financial and economic problem of the United Kingdom at the present time has become a general one rather than remaining confined to the dollar area. This problem arises from the inability of the United Kingdom to produce export goods in sufficient quantity and value to pay for its needed imports and still meet the demands of rearmament and of the British civilian population. Because of this the United Kingdom has been recently incurring large deficits in its accounts with areas other than the dollar area. For example, the whole sterling area this summer ran large deficits with the European Payments Union. Similarly, the United Kingdom has been increasing its indebtedness with the rest of the sterling area so that sterling balances are rising again. Obviously, in conditions such as these, for the United Kingdom to meet its whole problem it is necessary to do more than limit still further its imports from the dollar area. Rather, it may have to take action in respect to all its accounts, and readjust its control program so that imports are restricted almost as much from soft currency countries as from Canada. In other words, the time appears to have come for the United Kingdom to be less discriminatory in its import restrictions.

There is one further aspect of Canadian trade which has been on all our minds in recent months which I should like to discuss with you for a few minutes. I am referring to the unfavourable trade balance which we have been running this year. Although this balance shows up in the total figure, it is, of course, almost entirely an unfavourable balance with the United States. The deficit with the United States for the first seven months of this year amounted to \$376 million, compared with \$88 million in the same period of last year. The reason for this is that, although our exports have increased, imports have increased to a much greater extent. Our imports from the United States, again in the first seven months, are \$532 million greater this year than last.

It is notable that Canadian official holdings of gold and United States dollars have held remarkably steady this year. In December 1950 these amounted to \$1,742 million; in June 1951 to \$1,683 million. How can we account for this in the face of our large trade deficit? It is because of the large capital inflow from the United States, for resource development and for direct investment in Canadian secondary industries. Americans have been buying recently Canadian securities on an extensive scale. For the first time since the 1920's there has been a revival of Canadian borrowing in the United States, particularly on the part of municipalities.

Offsetting this capital inflow has been heavy Canadian buying in the United States. This is particularly for the capital investment programme in Canada, which this year will attain unprecedented levels. Secondly, consumer buying has been very heavy. Thirdly, higher prices have forced up the value of our imports to a considerable extent. Finally, defence buying has commenced on a large scale.