corresponding effect upon the general level of prosperity and as well the rate of unemployment and living standards of the Canadian people. To form a judgment about that, however, we must also have before us the fact that wide as have been the fluctuations in the rate of domestic per capita consumer spending, even more violent swings are seen in the other demand classifications. The volume of exports has doubled since 1933 and capital investment, other than for inventories, is running at seven times its depression low. Consequently, the really significant thing about the rate of domestic consumption, particularly in times of scarcity, is that it is the residual demand. When export demand is booming and the country is in a state of full employment, then unless domestic consumption is content to adjust itself to take what is left, an inflationary rise in prices will follow. Much will depend upon the actual state of scarcity, or otherwise, of essential supplies. If there is a current scarcity of goods and services which domestic consumers regard as essential they will, in the absence of emergency governmental controls, bid up prices until labour and materials are attracted away from the export demand. On the other hand, if scarcities tend to be in things which can be done without, it is possible that domestic consumers will prefer to do without until prices look more reasonable. We have had an interesting example of this kind of psychology in the post-war years. During the war the production of many consumer goods, including semi-essentials and many conveniences, was prohibited or restricted, so that there was, of course, a large backlog of deferred consumer demand at the close of the war. Accordingly, wartime controls were lifted gradually and with an eye to the heavy competing demands for export and to some extent for domestic investment. This course of action, coupled with remarkable patience and restraint on the part of the consuming public, enabled the war-accumulated backlog of demand to be liquidated gradually without the wild upsurge in prices that the extreme and competing demands might well have brought about. While we cannot yet say that all deferred demand has been met, the post-war increase in retail sales seems to be levelling out. In due course the important thing will be whether domestic consumer demand can absorb all of the labour and resources which will be available if our current investment boom tapers off or if exports are affected by the war-created foreign exchange difficulties of so many of our traditional customers. And this takes me to my next point.

<u>Exports</u>, as I said before, constitute about one-fifth of our national output and here we have a wide and complex field with so many external and internal ramifications that it is difficult to make very useful generalizations. The question breaks generally into two parts. First, that which is termed our over-all balance of payments is the net result of our trade with the whole world. If we have an over-all surplus in our trade with the world we accumulate foreign currencies, gold or other foreign assets and thus build up our foreign exchange reserves or are able to amortize our foreign debts. If, on the other hand, we run a deficit in our trade with the world it must be paid for out of foreign exchange reserves. A trend in this direction must be watched because a continuing drain on reserves will in due course require corrective and protective action. And, of course, we must also take notice of the fact that the state of demand in foreign markets has an influence on our domestic price level.

What I have said so far deals with the generalization affecting what I have called the over-all balance of payments - that is, the net result of our trade with the world. But within that concept yet another disequilibrium can and does arise, and this particularly in the case of Canada at the present time. It is this - We may be in an over-all surplus trading position with the whole of the world and yet be in a deficit position with some parts of it. In pre-war days this did not bother us. Generally speaking, our position was that we earned a surplus of sterling and other currencies which we sold in the New York market for the U.S. dollars which in turn we used to meet our deficit in that currency arising out of the fact that we sold less to the United States than they sold to us. But when the United Kingdom, for example, because of wartime dislocations, is unable to export enough goods and services to the dollar area to earn the dollars to pay for all the imports from the dollar area

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