contributing factor and, in addition, the unfortunate weather conditions with their effects on the crops. However, the European Recovery Program should be of major assistance in speeding up the adjustments. We in Canada must be, at the same time, both flexible in anticipating the adjustments required in making them.

Because of the favourable internal developments since the end of the war and the record peace-time level of our external trade, it came as a surprise to most Canadians to learn that our external position was not as healthy as it appeared and that we were facing a crisis. The reason is well known to you. The large volume of imports from the United States was being paid for in cash. Because we were financing a substantial proportion of exports going to war-time allies, our exports failed to earn enough hard currency to pay for these. The difference had to be made up by drawing on a reserve of gold and U.S. dollars. In May, 1946, our official holdings of gold and U.S. dollars amounted to $1,667 million, our post-war peak, and by November, 1947, this reserve was down to $480 million. It was imperative, therefore, to reduce quickly our adverse balance of payments with the United States.

The course of action decided on by the Government was aimed not only at meeting the immediate emergency but of meeting it in terms of the long-run adjustments that I have pointed out must be made if our foreign trade is to adequately serve our needs. The object was to improve our foreign trade balance of payments, (1) by importing less from the United States, where payments must be made in U.S. dollars; (2) by importing more from countries where payments are made in other currencies, mainly pounds sterling; (3) by exporting more, particularly to areas where payment is in U.S. dollars; and (4) by reducing credit to other countries. The effect of such a policy is to re-orient (1) internal and external markets; (2) consumer purchases; (3) our investment program, and (4) our production program.

The limitations placed on imports were embodied in the Emergency Foreign Exchange Conservation Act, commonly known as Bill 3. This Act limits the import of consumer's goods by means of prohibitions, quotas and excise taxes, and provides for the licensing of imports of capital goods and certain materials and parts used in production. Ministers of the Crown, and in particular the Minister of Trade and Commerce and the Minister of Finance, have warned against acceptance of the Emergency Foreign Exchange Conservation Act as a protectionist measure. Although the purpose of the restrictions is to encourage an increase in the Canadian content of products manufactured here, the new production must be able to meet competition from abroad. No encouragement is being given to the production in Canada of goods the import of which is now prohibited, and anyone who undertakes such production does so at his own risk.

The large part of the savings in U.S. dollars under the Act will take place in the field of consumers goods rather than in capital goods and production materials. The Minister of Finance has placed a tentative estimate of the reduction of consumer goods imports at $300 million, using the 12 months ended June, 1937, as a base. A saving of this magnitude is not enough to correct our foreign exchange position with the United States. Additional funds must be found by increased exports to