in the quantity and costs of imports from the United States. We had expected to draw substantially on our exchange reserves for a period of two or three years after the end of the war. Economic recovery in Europe and Asia was clearly going to take some time. It was also clear that our imports from the United States would be very large. But as events have transpired, recovery in Europe has suffered disappointing setbacks, bad weather and poor crops have intensified the need for outside assistance and the assistance made available so far, though large, has proved insufficient for the task. Europe's ability to send us more goods in settlement for purchases from us has shown little improvement and that in turn has accentuated our dependence on imports from the United States. Moreover, the level of our own consumption and the rate of expansion in our physical capital have exceeded the most optimistic forecasts and these, combined with the marked rise in prices in the United States, have swelled our dollar imports to a truly remarkable extent.

You can look at our position in this way. When a country sells goods on credit it must export more than it imports or draw on its foreign exchange or other capital assets to pay for part of its imports. In 1946 we sole more goods and services abroad than we purchased, with the result that the loss in our exchange reserves was not large. This year, however, we have increased our imports to such an extent that we have bought about as much as we sold. A substantial part of our sales, however, has had to be on credit and, therefore, we have had to dig deeply into our exchange reserves to pay for our increased imports. In other words, we have been financing a very high level of consumption and investment at home by drawing on our exchange reserves.

A Many-Sided Approach

There is no simple or painless way of correcting our dollar problem. It is so large that it must be attacked from many sides. The Government has considered just about every feasible course of action and has arrived at what I believe to be a balanced and constructive program.

Currency Not to be Depreciated

One commonly discussed course of action -- depreciation of our currency -- has been considered and rejected. Currency depreciation is a mreasure which may be appropriate to deal with a situation where a country is in balance of payments difficulties because its costs and prices are at a level which does not enable it to compete in world markets. This is far from being our case. Costs and prices in Canada are lower than they are in most countries with which we compete in world trade. Price competition with others is not restricting our exports. On the contrary, our difficulty in obtaining United States dollars in adequate amounts for our exports arises from the international financial difficulties in which some of our best customers find themselves, and these would not be corrected by depreciation of the Canadian dollar.