Let us cast our minds back to the days before we were concerned with institutions of this kind. In the days before we made American funds in Canada a government monopoly, Canadian residents bought and sold United States currency at market rates, in the same way that they bought and sold all other commodities and securities. When we bought more goods abroad than we sold in world trading, the rate of exchange went against us, which is another way of saying that our dollar fell in value as compared with the United States dollar or sterling. This meant that the purchasing power of the Canadian dollar was greater at home than abroad. In old times when the rate of exchange went against us the purchasing power of the Canadian dollar at home was greater, to the extent of the exchange, than it was abroad. What effect did that have? Why, the Canadian resident who desired some commodity discovered that he could buy it more cheaply at home than he could abroad, and accordingly he exercised his ingenuity to make use of the home product. Otherwise he would do without. Thus an automatic balance was always working: the principles of trade, the rules of mathematics—mere additions and subtractions,—the natural order, if I may call it that, supplied the corrective, and the international balance was maintained with the smoothness and universality of the force of gravity applied to a weigh-scale.

We were then depending on ordinary rules of nature; but this is not so under the rule of the Foreign Exchange Control Board. Such principles have been set aside. Businessmen no longer employ their bankers as agents to secure for them United States funds at the best rates obtainable, as they did in bygone days. Now the businessman who desires United States funds with which to purchase United States commodities sees his banker, not as his own agent in the purchase of United States funds on his account, but rather in the new capacity of a civil servant—to quote the Act, the "authorized agent" of the Foreign Exchange Control Board—and the rate of exchange no longer concerns the businessman at all, for it is now fixed by governmental decree issued either by the Minister of Finance or by the board itself, and altereth not. The relative value of Canadian and United States money interests him but mildly, for if there are exchange losses on the transaction the government pays them. And observe that the government, while it may pretend to set the rate of exchange, does so only as between the Canadian resident and the board, for the government has no power to require American citizens to sell United States dollars for less than they are worth. The setting of the rate of exchange is limited to the transaction between the board and the Canadian citizen. In discussions between bank manager and customer, talk about rates of exchange and the soundness of the proposed transaction is a thing of the past. The customer now tells the bank manager how much he would like the money—an attitude which is not to be marvelled at in periods when American money is worth more than Canadian—what a fine fellow he is, and what a fine fellow the banker is. The customer points out that his account was always in this bank and makes other covert references to the " teacher's red apple." The banker simply asks what amount is required, and he sells American money out of government reserves, at dollar for dollar, without the least concern as to the true value of the currencies being exchanged.

Under this cock-eyed arrangement the government has watched the board's huge stockpile of United States dollars melting away like snow upon the desert's dusty face. As our adverse trade balance grew, the difference between the true value of the currencies increased, and with each increase in the actual value of American money over Canadian money, the demand for American in exchange for Canadian at par has of course also increased. Why wouldn't it? So the Department of Finance finally wakes up to find itself vis-a-vis with losses that are appalling.

I submit to you that the major portion of our difficulty is of our own making, because of three things. First, because of our gifts and credits to our customers abroad. I am not criticizing them; I have been at pains to say that I am not discussing that feature of these matters, actions in which opposition and government joined. The government would have been much criticized had it not made those gifts and credits. There they stand; and if you are to think clearly you must not leave out factors because of incidental thoughts.

The second factor in the making of our difficulty is governmental interference in the marketing of wheat, gold, livestock and perhaps some other things. And the third is, governmental interference with the automatic adjustment consequent on variations in the rate of exchange, the balance-wheel of business.

In the face of these facts, which I submit to you are obvious, the Conservative party is shouting for a controlled devaluation of the Canadian dollar by ten per cent. But this quite plainly would get us nowhere, for the balance-wheel would still be tied. We would still have a fixed and static rate rather