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(C.W.B. September 23, 1949)

Since the end of the war we have been confronted with repeated dollar crises, each threatening to produce a breakdown in the economic relations between the democracies of the Western world. These crises had their origins in the widespread economic dislocations and heavy losses caused by the war. Honourable members are familiar with the co-operative measures taken in the past to deal with these difficulties. First, there was the work of relief undertaken by UNRRA and the military authorities; then we had the establishment of the two international monetary institutions at Bretton Woods; this was followed by the extension of large loans and credits by the United States and Canada to the United Kingdom and other European countries. Finally there was the adoption of the Marshall Plan which has provided further substantial financial help from the United States. These measures have been highly successful not only in averting the incalculable consequences of economic and political collapse, but have been essential elements in the successive stages of physical reconstruction. With the help of these measures the peoples of Western Europe have been able to perform the remarkable feat of repairing, in a few short years, the physical ravages of the most destructive war in history.

UNBALANCE IN WORLD TRADE

Although physical production has been largely restored we have continued to face a most serious unbalance in world trade. The so-called dollar shortage has continued to get worse and has become all but universal. How to overcome the widening disequilibrium between the dollar and non-dollar world was the central task of the Washington discussions. Each of the participants was keenly and deeply aware of the consequences of failure. Unless the trend could be reversed the free world would, through the force of events, divide itself into two economic blocs. With this division there could not be a sound or lasting basis for political co-operation and security.

The problem was approached in the realization that these great issues were at stake. The atmosphere of co-operation and understanding in which the discussions proceeded could not have been better. Each side was prepared to re-examine its policies in the light of the adjustments that are required. The United Kingdom, the Sterling area, and other non-dollar countries had to find ways and new incentives by which their dollar earnings could be quickly and substantially expanded. The dollar countries on the other hand would have to follow policies which would enable that expansion in dollar earnings to take place; and wherever possible undertake the removal of obstacles which stand in the way. The decisions taken by the Government of the United Kingdom to achieve this common purpose were announced yesterday by the Chancellor of the Exchequer. The courses of action adopted

by the dollar countries are clearly set forth in the communique issued at the conclusion of the Washington talks. Honourable members will agree that these decisions and courses of action constitute a positive and comprehensive effort to achieve a soundly balanced and expanding world trade upon which the prosperity of Canada so greatly depends.

The action taken by the Government of the United Kingdom, and followed by many other countries, has, aside from the longer-run effects, important immediate implications for Canada, as well. It is clear, now, that a widespread and substantial readjustment of currencies is under way.

The Canadian economy is bound to be affected by changes in the exchange rates of countries which take so large a part of our exports. We are bound to be affected also by any changes in prices which prevail in our most important markets and sources of supply.

In considering the immediate and prospective impact upon Canada we have to look particularly at our balance of payments and foreign exchange position. Because of the dislocations in world trade which have prevailed since the end of the war, foreign exchange policy has been a major factor in our affairs. Honourable members will recall the heavy loss in foreign exchange reserves which we experienced during 1947, owing to the inability of our customers in Europe to pay for a large part of their imports from us. The measures which we were obliged to take in November of that year to stop the drain were highly successful. A substantial current account surplus in our balance of payments was achieved during 1948, and our reserve of gold and United States dollars was increased from a low of \$461 millions in December, 1947 to \$998 millions at December 31, 1948.

CURRENT ACCOUNT SURPLUS

However, at the beginning of 1949 it was clear that the worsening world dollar situation and our rising imports from the United States would result in a sharp reduction in our current account surplus. The current account surplus in our balance of payments has in fact been declining and it is now estimated that for the year as a whole, it will in any case be very small. Consequently any developments which tend to bring about a reduction in the total value of our exports or an increase in our imports is likely to create a deficit in our international accounts. Such a deficit would result in a loss of exchange reserves.

While, as I have said, our exchange reserves have recovered substantially since the end of 1947, they have not been restored to the level which is adequate for our needs. In these circumstances it is highly desirable to pursue policies which would help to prevent a deficit in our trading position.

The substantial devaluation of currencies throughout the sterling area, and in many

other countries as well, cannot fail to have important implications for our balance of payments position. Many of our exports are bound to face increased price competition in both the non-dollar and dollar markets. At the same time the extensive exchange adjustments abroad will tend to result in an increase in the total value of our imports. While we stand ready to co-operate with the efforts of overseas countries to expand their sales to us we cannot receive more imports from all sources without going into deficit in our international accounts.

In these circumstances the Government has decided to adjust the exchange value of the Canadian dollar to the extent considered necessary.

Canada's basic position will continue to be strong. Our exports have been and will continue to be competitive. Our production is efficient and our costs are relatively low. Because of these underlying factors the Government has felt that an adjustment of 10% is appropriate. Such a change requires consultation with but not the approval of the International Monetary Fund. This consultation took place today. An Order-in-Council has therefore been passed adjusting our exchange rates on the basis of a 10% premium on the U.S. dollar. The Chairman of the Foreign Exchange Control Board has been instructed to advise all authorized dealers and agents of the Board that rates effective as from the opening of business Tuesday, September 20, will be as follows:

	<u>Buying Rate</u>	<u>Selling Rate</u>
U.S. dollars -	\$1.10 per U.S. dollar	\$1.10½ per U.S. dollar
Sterling -	\$3.07½ per £	\$3.08½ per £

MEDICAL SERVICES ADVISORY BOARD: The formation of a Defence Medical Services Advisory Board was announced on September 20 by the Minister of National Defence, Mr. Claxton.

The Board will consist of the medical chiefs of the three armed services, the Director General of Dental Services and representatives of other government departments and of civilian organizations concerned with defence planning from the medical point of view.

Surgeon Captain Archie McCallum, O.E.E., V.R.D., Royal Canadian Navy, Medical Director General of the Royal Canadian Navy, the present Chairman of the Inter-Service Medical Committee, has been appointed to serve as initial Chairman of the Board.

Duties and functions of the Board will be to advise the Defence Minister on matters connected with defence requirements in the medical and dental fields and particularly the provision and assignment of medical, dental nursing and hospital personnel, hospital facilities and supplies.

The Board has been established following discussions with leading Canadian medical authorities, in which it was agreed that such an organization was highly desirable.

In composition and scope the Board will be similar to the wartime Medical Procurement and Assignment Board and Committee on Hospitalization. The former classified and allocated trained medical personnel; the latter attended to the allocation of supplies and installations.

BUYING ABSENTEE OWNERS' FARMS: The Department of External Affairs has been advised that the Japanese Government has enacted special measures for the establishment of owner farmers. The Japanese Government is purchasing agricultural properties of all absentee owners of Japanese nationality.

Exemption is provided, however, for owners of such land who, according to records in Japan, have renounced or lost their Japanese nationality prior to October 21, 1946.

It is further provided that persons who are registered as Japanese nationals in the records of Japan, as of October 21, 1946, but who in reality had lost Japanese nationality and had become foreign nationals prior to that date, may submit to the Japanese Government applications for the cancellation of the purchase. Such applications should include evidence supporting the absentee owner's loss of Japanese nationality.

Applications for exemption may be submitted immediately, or within a period of twelve months of the date an Order to Purchase is received, and should be sent direct to the Japanese Government (Minister of Agriculture and Forestry).

CANADA SAVINGS BONDS: The item headed Canada Savings Bonds appearing on page 7 of Vol. 4, No. 45 of September 16, commencing the third paragraph, should read, "Because of these favourable investment features, not more than \$1,000 of Fourth Series Canada Savings Bonds may be registered in any one name. Bonds may be bought in the name of each member of a family, whether adult or child, up to this limit."

FISHERIES COMMISSIONER: Announcement was made on September 20 by the Minister of Fisheries, Mr. Mayhew, that George Clark, Director of Pacific and Inland Fisheries, has been appointed a member of the International Fisheries Commission. The Commission is a joint Canada-U.S. body which deals with the preservation of the halibut fishery of the northern Pacific Ocean and Bering Sea.

Mr. Clark, whose headquarters are at Ottawa, replaces Stewart Bates, Deputy Minister of Fisheries.