

of exports to the United Kingdom and Europe and a surplus of imports from the United States. The pattern of payments however has only been maintained through special measures of assistance on the part of Canada and the United States. The revival of the triangular pattern of payments is dependent upon the United Kingdom and Europe so restoring their productive capacity and their competitive efficiency that they can earn a surplus of U.S. dollars in their transactions with countries other than Canada which they will have available to settle their deficit with Canada and which we shall in turn have available to settle our deficit with the United States. The alternative to this is the bilateral balancing of our accounts with the United Kingdom and Western Europe on the one hand, and with the United States on the other hand. Such a bilateral balancing would inevitably involve severe and painful adjustments in our economy and the stresses and strain might have far-reaching consequences.

It was no wonder then that Canada should have desired to make an important contribution to the economic restoration of the United Kingdom and Europe. But as matters turned out, the contribution we made exceeded the amount of our earnings we had left over after meeting our own large upkeep expenditures. Taking the two years 1946 and 1947 together we extended net loans to foreign countries in the amount of \$1,120 million\* and, in addition made gifts to foreign countries in the amount of \$135 million - a total of \$1,255 million. But during these years our net surplus on current account amounted to only \$539 million - \$454 million in 1946 and \$85 million in 1947. In other words, our net earnings fell short by \$716 million of the amount we loaned and gave away. This difference of \$716 million came out of our foreign cash reserves held in the form of gold and U.S. dollars. In addition we had to use \$290 million of these cash reserves to make net capital payments - the most important being retirements of debt in the form of Canadian securities held by Americans and our gold subscription of \$75 million to the International Monetary Fund. The consequence was that our international cash reserves which had been built up to the high figure of \$1,500 million at the end of 1945 fell by \$1,000 million in 1946 and 1947 and at the end of last year amounted to only \$500 million.

In my lecture last year I referred to some of the main factors responsible for both the unexpectedly heavy utilization of credits by foreign countries in 1946 and 1947 and the sharp falling off in our own balance of payments surplus in 1947. I do not intend to repeat that analysis now - it can be summarized by saying that the unexpectedly slow rate of recovery in Europe led to very rapid drawings on the credits made available by Canada and the United States, while the high level of prosperity in Canada led to an extremely heavy volume of imports from the United States. The point I wish to emphasize now is that Canada's exchange difficulties did not arise, as exchange difficulties normally do, out of a deficit in our current international payments or any lack of international competitive capacity. Even in 1947 we had a surplus. Our cost and price structure were and are among the lowest in the world. Our exchange difficulties arose out of the disparity between our net foreign earnings and our net loans and gifts to foreign countries.

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\* Net export credits amounted to \$1,313 million offset mainly by repayments received on the 1942 Loan to the United Kingdom.