

the European estimates and it was decided that it would be best to approach the question of U.S. contributions to European recovery on an annual basis. The Economic Co-operation Act of 1948, therefore, provides \$5.3 billion for the first twelve months of the recovery programme. A considerable proportion of the funds allocated will be devoted to purchases in Canada and other Western Hemisphere countries to enable them to supply goods urgently needed by Europe, but which are not available in the United States.

#### UNITED STATES AID

A consideration of the background to the Economic Co-operation Act should make it abundantly clear that the object of the whole programme is the reconstruction and rehabilitation of western Europe so that it may again become self-supporting and once more occupy a key position in the world trading structure. It follows, therefore, that the goods which are sent to Europe under E.C.A. must be confined to these categories which will make the maximum contribution to European recovery. Let no one assume that Europe will be a dumping ground for any less essential surpluses which develop. It is surely obvious that an outlay on such commodities would be quite contrary to the whole spirit and purpose of the Economic Co-operation Act. If we did not confine ourselves to absolute essentials, not only would the recovery of Europe be delayed, but Canada would be failing in her responsibilities.

The fundamental necessity of the European countries doing everything possible to help themselves must inevitably involve various readjustments in the patterns of trade. The western European countries have, for example, pledged themselves to expand intra-European trade by the reduction of tariffs and other obstacles to international commerce, to stabilize their individual economies, and to

promote the production of those commodities which are most conducive to their rehabilitation and future prosperity. In such circumstances, it is possible that some of the traditional markets for certain of our basic commodities may suffer, and we must, therefore, be prepared to make readjustments. This will call for the understanding and co-operation of responsible men in business, labour and in government.

Let us be clear. European recovery will involve sacrifices. We, as individuals, will be called upon to give up some of the goods which we might otherwise have enjoyed. We, as producers, must be prepared to adjust our patterns of output to meet the exigencies of a rapidly changing world.

#### EFFECT ON OUR EXPORTS

Many people in this country are, perhaps, not quite clear as to the actual significance of the new Economic Co-operation Act for Canada's exports and dollar exchange position. As a first step in removing popular misconceptions let us look for a moment at the actual nature of our problem. The dominant feature of our payments picture in 1947 was that although we were a net exporter to the world as a whole, we, nevertheless, were forced to withdraw about three quarters of a billion United States dollars from our reserves. This is largely explained by the fact that, whereas we obtained nearly 80 per cent of our merchandise imports from the United States, we sent only 40 per cent of our exports to that destination. On the other hand, to the United Kingdom and other European countries, whose dollar loans were nearing exhaustion, we exported about 40 per cent while importing less than 10 per cent. In view of the fact that European countries could supply only limited quantities of convertible currencies to cover their deficits, it is clear that our high level of exports was only pos-

sible as a result of the extension of credits and the consequent exhaustion of our dollar reserves. Now that we cannot fall back on such reserves and the United Kingdom and other European countries are still not in a position to transfer sufficient gold or dollars to our account to pay for all they need, the problem is to find a working arrangement that will make possible continued shipments of reconstruction goods where they are most urgently required.

I have seen some reports to the effect that E.R.P. would actually increase our exports by adding several hundred million dollars to the value of our current flow. This is far from the truth. What I have emphasized already about our trading and payments position should make it abundantly clear that last year's exports were supported by credits which we can no longer provide. Therefore, were it not for E.R.P. off-shore purchases our exports would have declined inevitably. Now we may hope - not that shipments will be greatly increased - but that they will be maintained at least at the level of 1947.

#### OUR DOLLAR PROBLEM

Another and related misconception, which is all too prevalent throughout the country at the present time, is that E.R.P. will automatically solve our United States dollar problem. This is not the case. Let us look for a moment at the most relevant facts. Since the war, we have been able to cover our net deficit with the United States by drawings on our accumulated reserves and by transfers of U.S. dollars from the United Kingdom. Expenditures by the United States under the Economic Co-operation Act for goods and services from Canada will simply enable us to continue export shipments without having the indirect effect of further depleting our supplies of U.S. dollars. But it is not enough for us to stop the drain on our reserves. We must build