

and while for some time payment in sterling was accepted, the sterling funds acquired by Canada was allowed to rise in London as a frozen balance. In effect, this amounted to an extension of credit by Canada, though its own obligations in the United Kingdom had been only partly liquidated.

By 1941 Canadian exports to British countries had reached more than double their pre-war volume. The sterling area's net deficit of Canadian funds up to the end of February, 1943, had amounted to \$1,700,000,000 and the government's accumulated blocked balance of sterling in London at that point totalled more than \$2,000,000,000.

Recognizing that this rapid piling up of financial claims could only be disturbing in its post-war effects, the Canadian government determined to check the government.

It appropriated \$1,000,000,000 as a gift to Britain to cover its deficits for the last nine months of 1942. The accumulated sterling balance in London was partly liquidated to facilitate redemption of the remaining Canadian government debt in Britain, and the remainder (\$700,000,000) converted into a dollar loan, transferred to the end of the war.

This left the two countries mutually indebted, but with Canada still in a net debit position since the Canadian contribution still held in Britain amounted to more than the \$700,000,000 loan. (The subsequent repatriation of British securities has brought the position of the two countries more nearly into balance.)

It left the Canadian government with only a nominal working balance in sterling funds.

It provided for liquidation of Britain on a maximum scale without further increase in its obligations to Canada.

A part of the material supplied from Canada under this arrangement has been passed on by the United Kingdom to other British countries, France and China, on loan-lease terms.

In order to broaden and simplify the mechanism for such transfers, the Canadian government announced in February, 1943, that it would bring down a Budget Bill appropriating \$1,000,000,000 for the purpose of making