

surplus on current account went towards reducing Canada's indebtedness to foreign countries or to increasing our holdings of foreign assets, such as foreign exchange or foreign securities. At that time we were (and at present we are) on balance substantially indebted to foreign countries. It is estimated that at the end of 1939 total foreign investments in Canada were of the order of \$7,000 million, whereas the Canadian investments abroad were only something like \$1,400 million. This heavy investment of foreigners in Canada I shall have occasion to refer to later for it was perhaps the most important reason for the introduction of exchange control at the outbreak of World War II.

The first point about Canada's international financial position is, then, that we are heavily indebted to other countries and that in the years just before World War II we had normally a favorable current account balance which provided us with surplus foreign exchange which was being used to reduce our net international indebtedness.

The second general point in connection with our international transactions to which I wish to refer is their geographical distribution. In particular, before the war we ordinarily had a very large surplus in our current account transactions with the U.K. and Western Europe, and a considerable deficit in our current account transactions with the U.S. This lack of balance arose, of course, out of the economic structure of Canada which in turn is the result of our economic history. The main export products of Canada - such as wheat and other foodstuffs, lumber and base metals - were products of which the U.K. and Western Europe had a deficiency. On the other hand, the goods on which we had a deficiency - such as coal and petroleum, steel and steel products - were goods for which the cheapest and most convenient source of supply was the U.S. Custom and habit and advertising also played their part in making us look to the U.S. to supply us with these things as well as with a wide range of consumer goods. Whatever the reason may have been, it was the case that we sold substantially more goods and services to the U.K. and Western Europe than we bought from them, while on the other hand we bought substantially more goods and services from the U.S. than we sold to that country.

The triangular nature of Canadian trade was of no particular concern to us before the war for we were readily able to convert the surplus sterling and continental currencies which we got as a result of our transactions with those parts of the world into American dollars to pay for our surplus of imports from the U.S. What this means in non-financial terms is that we were paying for imports from the U.S. with exports to the U.K. The international financial system under which this sort of thing can go on is known as the multilateral system. Under such a system each country may follow the obviously advantageous practice of buying in the cheapest market and selling in the dearest without worrying about whether its sales and purchases with any one country are equal. Under a multilateral system all that matters for a country is that its current receipts from all countries should be suitably related to its current payments to all countries. Since multilateralism was more or less the order of the day in the pre-war world and since Canada's overall current account with all countries was, as we have seen, satisfactory, the existence of a substantial current account surplus with the U.K. and a substantial current account deficit with the U.S. was of little consequence to us. However, since the beginning, and particularly since the end of the second world war the existence of this bilateral disequilibrium has proven to be a factor of major consequence in Canada's international financial relations. The reason is, of course, that under the stresses and strains of the war international multilateralism broke down and has not yet been re-established. The result is that Canada, which grew up in a multilateral environment, is now obliged to get along as best it can in a cold cruel bilateral world.