through this war expenditure without freezing up much of our liquid position. I was not entirely in favour of the government's action last November as regards the $200,000,000 two per cent two-year expansion banking arrangement which was made. It was a new departure so far as financial circles were concerned. The government met no opposition in September from our party. We were not sure just how it was intended to raise this money in November. Had we known, we might have advised the minister, for several reasons, to put on a war loan as early as possible.

The first reason, to my mind, is that nothing grips so much the imagination of the people and makes them realize that there is a war on, as a war loan. It seems to stir them; they know they have a job of work to do. The second point which occurred to me was that the government knew, when that short-term loan was put on, that $92,000,000 out of that $200,000,000 would be used for the repatriation of Canadian securities held in Great Britain. The government must have known also that it would be some years before Canadian securities would be flowing back again to be held in London. On more than one occasion the Prime Minister intimated in this chamber that this would be a long war. Time and again we had evidence that Britain's war effort would tend to exhaust her financially to a serious degree, and that our Canadian securities held in London would not flow back there within two years, and in that period of time would not amount to $200,000,000. The main point I had in mind in that connection, however, was that our people would have known that we were at war. As regards the amount of money raised, we were not courageous enough for we did not ask for enough. In proof of that I mention the fact that the January loan of $375,000,000, our first war loan, at $3\frac{1}{4}$ per cent for twelve years, was subscribed to by 178,000 persons in Canada. They poured $200,000,000 in cash into that loan. Those 178,000 subscribers realized in January that there was a war on and had they been given the opportunity in September or in November they would have come to the front in like manner. In the meantime we lost the enthusiasm and that driving force which these people would have engendered in creating public opinion to do everything possible to further our war effort. We lost three precious months.

I suggest that we shall have difficulty in borrowing our way through this war, and therefore I reiterate what I said before. We should do everything we possibly can to pay as we go. It will be impossible, under the United States Neutrality Act and the foreign exchange control regulations, for us to expect much in the way of United States funds; therefore I urge that we conserve as much as we possibly can of our foreign exchange for the purchases which we have to make abroad. In passing I would offer the suggestion with regard to investments held by non-residents of Canada —and I refer mostly to the United States at the present time. Our foreign exchange control board is buying large quantities of United States exchange to pay for such items as rent, mortgage interest, dividends on purely Canadian investments, and we are losing a good many Canadian dollars in securing United States exchange for the purpose of remitting these items. I suggest that the foreign exchange control board should give serious consideration to the question of retaining these balances in Canadian depositories. I have held some strong views for some time with regard to the pegged rate of exchange. Pegging it at ten per cent as we did in September was quite all right at that time, but there should have been an adjustment.

Before discussing this question I should like to read into the record certain figures with regard to the free market exchange as given by the federal reserve bank in New York, obtaining since the outbreak of war. In this connection I would say that the government, by putting on a ten per cent war exchange tax, have gone a long way to meet the situation to which I now refer. In respect of imports they have caught up to the free exchange market I should like to have seen obtain, and they have done so in one jump from ten to twenty per cent, by invoking the war exchange tax of ten per cent. But there are two sides to the picture, because while exchange comes to us on the goods we export, exchange must be given by us for our purchases from abroad. I should like to put on *Hansard* the exchange rates from month to month since the outbreak of war. At the first of September one hundred Canadian dollars were buying 95·6 United States dollars; October 2, 88·8; November 1, 89·6; December 1, 88·6; February 1, 87·4; March 1, 86·1; April 1, 81·1; May 15, 81·6. These were the exchange rates in the so-called free market, or, as some call it, the black market as published by the federal reserve bank of New York.

In our trade agreement with the United States, provision was made for mutual agreement on wide fluctuations in exchange. In order that the record may be complete I wish to quote article XIII, which made this provision:

> If a wide variation should occur in the rate of exchange between the currencies of Canada and the United States of America, and if the government of either country should consider the variation so substantial as to prejudice the industries or commerce of that country, it shall be free to propose negotiations for the modifi-