

and while for some time payment in sterling was accepted, the sterling thus acquired by Canada was allowed to lie 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.

Gift to Cover
Deficit

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, 1942, had amounted to \$1,770,000,000, and the government's accumulated blocked balance of sterling in London at that point totalled more than \$1,000,000,000.

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 movement.

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 applied to immediate redemption of the remaining Canadian government debt in Britain, and the residue (\$700,000,000) converted into a dollar loan, interest-free to the end of the war.

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

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

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

Aid Policy
Extended

A part of the material supplied from Canada under this arrangement has been passed on by the United Kingdom to other British countries, Russia and China, on lend-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 Mutual Aid bill appropriating \$1,000,000,000 "for the purpose of making