

There is no formula, scientific or magic, which can be used to determine what is an adequate level of reserves for a country in Canada's position. Certainly the level of \$500 million to which our reserves fell at the end of 1947 was very far from adequate - it was closer to the iron ration. One's views regarding an appropriate level of reserves will naturally vary in accordance with one's attitude towards the economic situation at home and abroad, and the bearing of this situation on the prospective balance of payments. So far as our domestic situation is concerned, the general outlook seems quite favorable. Our industries are efficient and fully employed; our crop situation - always an uncertain factor - has been reasonably satisfactory. Most important, we have in recent years been devoting a very large proportion of our output to improving and adding to our capital equipment. These additions to plants should soon be yielding their fruit in expanded output. One favourable factor worthy of special note is the recent oil discoveries in Alberta which will reduce our dependence on American supplies of this essential commodity.

Taking it all in all, if one were concerned only with the domestic factors in our situation one might not be too dissatisfied with the level of reserves we are likely to attain at the end of 1948. It is the external factors which give the greatest cause for anxiety and which induce one to adopt a more cautious attitude. The anxiety relates to the continued ability over a long period of time of our European customers to continue the present scale of cash purchases in Canada. At the present time their purchases in Canada are bolstered by E.C.A. funds. E.C.A. authorizations for purchase in Canada up to November 8, 1948 amounted to nearly \$400 million, or one sixth of total E.C.A. authorizations. Well over three-quarters of this amount was on behalf of the U.K. It should be carefully noted that these off-shore procurements in Canada have not enabled Canada to sell more to the U.K. and other E.R.P. countries than we had sold in the past. On the contrary the value of our exports to the sterling area and other E.R.P. countries will probably be over \$100 million less in 1948 than in 1947. Nor has E.C.A. resulted in our collecting substantially larger amounts of U.S. dollars from the E.R.P. countries than we had been doing. What E.C.A. has done is to enable us to continue much the same outflow of exports of essential goods vitally required for European recovery and to obtain much the same U.S. dollar receipts from these countries as hitherto.

In thinking of the future one wonders, however, whether we shall be able to continue the present level of cash exports to Europe. The United States will naturally wish to make progressive and substantial reductions in the E.C.A. appropriations. Moreover, as surpluses appear in United States production of various agricultural commodities the relative ease of off-shore procurements in Canada may be curtailed. The question then will be whether the E.R.P. countries will have so restored their productive and competitive capacity that they can earn enough dollars to maintain something approaching their present level of purchases in Canada. This, for Canada, is the \$64 question. And, as in the case of so many of the prize questions I have raised today, I do not know the answer. As usual there are reasons for encouragement and reasons for hesitation. The encouragement is to be found in the restoration of production of the European countries, in the successful efforts made by some of them, notably the United Kingdom, to increase their exports, and in the far-sighted and open-handed assistance being extended by the United States. Hesitation is induced by the tense international political situation which threatens to divert resources to an increasing extent away from the tasks of economic recovery, and by contemplation of the length of the road still to be travelled before the E.R.P. countries can balance their international accounts, and especially their dollar accounts, at a high level without special outside assistance. Some of the policies currently being followed by some E.R.P. countries, indeed, make one wonder whether they have not themselves reached the conclusion that, after the period of special assistance, they will only be able to balance their dollar accounts at a low level and this by restricting