

down the drain. On the contrary, by far the greater part of these imports have served to strengthen the Canadian economy and lay the ground work for greater productivity and greater production in the future.

Another reason for the worsening of our position as compared with our expectations was the disappointing rate of European recovery. A series of setbacks due to a variety of factors, including severe winters, crop failures and political tensions, prevented the economic recovery of our European customers from proceeding at as rapid a rate as otherwise would have been possible. Apart from these setbacks, however, I think it is the case that, in common with others, we underestimated the magnitude of the real destruction caused by the war, including not only physical destruction but also the disorganization of business enterprise, the loss of business connections, the disappearance of trained skilled personnel, and so on. Perhaps in the summer of 1945, when the European war was ended, we had no right to think that by this time European countries would be further advanced on the road to recovery than they are. If this mistake was made, it was, as I have indicated, a very general one and perhaps an excusable one - after all there was no objective yardstick which could be used to measure the time or effort required to get the war-ravaged economies of Europe back on their feet.

One direct financial effect on Canada of the relative slowness of European recovery was that the credits which we had, in our interest, extended to help float these economies were used up much more quickly than either we or the receiving countries anticipated, with the consequence that in 1946 and 1947 we failed to receive cash for a larger proportion of our exports than we had reckoned on. The outstanding case of this is, of course, the British credit. The credit of \$1,250 million which we extended to the U.K. in 1946, supplemented by the hard currency payments which it was understood that the British would make to us pari passu with their use of the credit, was expected to look after the British financial requirements in Canada for at least three or four years. In point of fact, as matter has worked out, the British drew \$540 million on the credit in 1946 and another \$423 million in 1947, leaving only \$287 million outstanding at the beginning of this year. Their import requirements from Canada continued to be extraordinarily high, while their exports to Canada were disappointingly low with the result that their deficit of Canadian dollars was higher than anticipated. Instead of lasting for three or four years the credit was nearly 80% used up within a period of approximately eighteen months.

There was a second direct financial effect on Canada of the disappointing rate of European recovery. As a result of the inability of the European countries to supply us with imports which we need and which we would ordinarily have purchased from them, Canadian importers turned to the U.S. for similar or substitute goods. This is true not only for cotton textiles but also for woollen textiles and for many other lines as well. In 1947 we obtained 78% of our total imports from the U.S. compared with 61% in the immediate pre-war years. If in 1947 we had been able to obtain the same percentage of our imports from the U.K. and the rest of the sterling area as we obtained before the war, our imports from these countries would have been increased by nearly \$400 million, and the British utilization of the Canadian credit would have been reduced by a corresponding amount. If one makes the further assumption that this short fall of our imports from the sterling area resulted in a diversion of these purchases to the U.S., one reaches the conclusion that perhaps something approaching one half of the total decline in our U.S. dollar reserves in 1947 may have been due to this cause.

A further factor responsible for a considerable part of the increase in our outlay of U.S. dollars for imports in 1947 was the rise in prices in the United States. It is not possible to determine exactly, without elaborate statistical computations, how much foreign exchange we would have saved if we had been able to obtain the 1947 quantities of