-S-

GOVERNMENT OF CANADA

STATEMENTS AND SPEECHES

INFORMATION DIVISION
DEPARTMENT OF EXTERNAL AFFAIRS
OTTAWA - CANADA

No. 49/6 CANADA'S INTERNATIONAL FINANCIAL POSITION

An address by Mr. Louis Rasminsky, Chairman (Alternate), Foreign Exchange Control Board, at the National Defence College, Kingston, December 1, 1948.

In the lecture which I gave here 10 months ago, I summarized some of the background elements in Canada's pre-war economic position, described the way in which the war had changed our international economic and financial position and attempted to analyze the post-war developments leading to the exchange difficulties which had culminated in the various restrictions imposed by the Government in November 1947. I do not propose to cover that ground again today. Instead, I intend to devote the major part of this talk to an analysis of the developments of the past year and to some speculative comments on the present outlook.

I should like to begin, however, by reminding you of some of the facts of life so far as international finance is concerned. International finance is supposed to be complicated and esoteric, and sometimes its analysts (and occasionally even its practitioners) like to use many-syllable words to conceal simple truths. In fact there is nothing mysterious about it - there is a virtually complete analogy between the financial problems of an individual in his own community and the financial problems of a particular country in the community of nations.

An individual's expenditures are limited by the amount of cash he can acquire. By cash, I mean all forms of money that are acceptable in one's community. The amount of money a person can command is made up of what he earns plus what he receives as gifts plus what he can obtain from the sale of assets (that is, by drawing on past savings) plus what he can obtain by borrowing. A person can, of course, spend on his current upkeep, that is, on food, clothing, lodging, etc., either more or less than he currently earns. If he spends less than he earns the difference is available to be saved and the savings may take the form of acquiring assets such as coins in the china piggy bank, banknotes stuffed in a mattress, a bank deposit, an investment in a house or a business, or loans to others, or it may take the form of paying off borrowings made in the past. Conversely, if a person spends more than he earns he must use up assets previously acquired - that is, he must loot the piggy bank - or borrow from others, thus mortgaging his future earnings. These are the facts of life in respect of an individual's finances and they are obvious in some cases painfully, to all of us.

The important thing to recognize is that these same homely, and often unpleasant, facts are the facts of life in international finance. A country's expenditures in the community of nations are limited by the amount of internationally acceptable money which it can acquire. Money which is internationally acceptable is usually referred to as foreign exchange, so one may say that a country's expenditures are limited by the amount of foreign exchange which it can command. The amount of foreign exchange which

....../2