was simply this. By extending large credits abroad, we were selling part of our exports on credit at a time when buoyant levels of domestic investment and consumption greatly stimulated imports. The export of capital greatly exceeded the current account surplus, with the difference coming out of our exchange reserves. This experience brought home to Canada in an emphatic way the simple lesson that still needs to be learned in some quarters, that there is a close relationship between the balance of payments and the pressure on available resources.

To deal with this problem the Government adopted a comprehensive programme to correct the imbalance and to restore the reserves to a more adequate level. The programme was based partly on short-term emergency measures, including import restrictions, exchange controls and substantially higher commodity taxes. At the same time more fundamental steps were taken to slow down the rate of foreign lending, to expand output and to increase dollar exports. The purpose of the direct controls was to arrest the drain on reserves and to provide time for the more basic and longer-term measures to take effect. Incidentally, the alternative possibility of lowering the Canadian exchange rate was rejected by the Government at this time, partly because the problem was not one of lack of competitiveness of Canadian exports and partly because of its belief that price elasticities of the goods entering into Canada's foreign trade under the conditions then prevailing in world markets were such that a change in the par value of the Canadian dollar would have little effect.

Even though it was emphasized that the restrictions would be removed as soon as our reserves improved, it soon became obvious that the incidental protection which they afforded was having the effect of stimulating high-cost, uneconomic production of some of the goods subject to import control and introducing distortions and rigidities in the Canadian economy. Vested interests were being created and doubts began to be expressed concerning the merits of trying to follow liberal trading policies in a world of widespread restrictionism, discrimination and inconvertibility. In a sense the very basis of Canada's traditional trade policies was being questioned.

It was clearly realized, however, that if Canada was to continue to market her exports in the United States in large volume, it was essential to keep costs down, encourage productive efficiency, maintain competition and retain sufficient flexibility in the economy to permit adjustments to the inevitable shocks of a dynamic and rapidly changing world. The Government therefore decided to resist the pressures towards increased bilateralism. The emergency restrictions and discriminations were progressively eliminated as soon as our exchange reserves showed any perceptible improvement. The maintenance of a flexible economy was adopted as a positive purpose, and exporters who found themselves excluded from overseas markets were encouraged to find new outlets in dollar markets. The maintenance of a flexible, competitive economy would, it was felt, make the most out of the opportunities provided by the discoveries of new resources to which I have referred and help to maintain conditions in which capital required for basic development could be obtained.