

Canada was getting into this position during the post-war period. Because of the dislocations of the war and the unexpectedly slow recovery of Western Europe, it was not possible for some of our old and good customers, especially the United Kingdom, to pay cash for more than a part of their Canadian purchases. At the same time, the Canadian people needed large quantities of things which could only be secured from the United States, absolutely essential things, such as coal and steel and oil and machinery and cotton, and, as well, a lot of less essential things for which there was a large pent-up demand after the war, such as automobiles and refrigerators and radios and new clothes and early fruits and vegetables. There was no real buying spree in Canada; but people had wants, and money to fill a good part of those wants.

The result was they were buying too much for cash from the United States and selling a great deal on credit abroad.

A situation such as this cannot be treated in the way in which an auditor might treat the books of a merchant getting into difficulties. The United Kingdom and other countries severely stricken by the war desperately need Canadian goods - wheat and meat and other foods, lumber and base metals, railway equipment and so on. If they were told to pay cash for everything, they would have to cut their supplies drastically, and their recovery would be retarded. Canada therefore continued to sell these essential things largely on credit, in addition, of course, to carrying her fair share of providing free relief supplies. When a country sells things on credit, it must either export more than it imports to the amount of its credit sales, or use up its working capital of foreign exchange to pay for its imports. Canada was, in effect, financing out of her reserves of gold and dollars these exports sold on credit. It was hoped that the reserves would be large enough to fill the gap until the western European countries began once more to pay their own way.

Events have shown that that hope was false. Nearly every responsible person in early every country underrated the amount of time and the volume of supplies that were necessary to European recovery. This over-optimism was to be found in every country of the western world, in every political party and in all occupations. One of the most brilliant men of our age, who had been intimately associated with the planning of British recovery, the late Lord Keynes, wrote in an article which was published after his untimely death less than two years ago:

"Putting one thing together with another, and after pondering all these figures, may not the reader feel himself justified in concluding that the chances of the dollar becoming dangerously scarce in the course of the next five to ten years are not very high? I found some American authorities thinking it at least as likely that America will lose gold in the early future as that she will gain a significant quantity".

It has not however, been mere miscalculation, the underrating of the difficulties which had to be overcome, that has been responsible for the dragging pace of recovery. The split between East and West was not foreseen two years ago as likely to become a serious impediment to recovery in Europe, but it is now almost all-pervasive in its effect. On top of this came the terrible European winter of 1946-47 followed by the worst crops on that continent for many years.