Exchange problems arose before the War, and have been vastly increased by wartime debt accumulations, by the destruction of productive capacity, and by the disorganization of established trade channels.

Even before the war, many of our customers in Europe had not been able to buy from us on a satisfactory scale due in considerable part to the shortcomings of foreign exchange and financial arrangements. Exchange rates in the 1930's were unstable and this made international trade more difficult. Many of our competitors sought by special devices in the field of foreign exchange to gain an unfair advantage over us. Countries competed against one another in depreciating their exchange rates in an effort to gain advantages in exporting. Import quotas, quantitative controls, clearing arrangements and other restrictive practices were the order of the day and generally did more to throttle trade than high tariffs.

Canada and other Allied Nations were determined that international financial arrangements after the war should be more sensible and workable and that they should encourage economic expansion rather than economic contraction. We feel that this should be done by means of the cooperative international action that had been so successful in the winning of the war itself. As a consequence, officials of Britain, United States, Canada and several other countries had a number of informal discussions during the war years which finally led up to the calling of a conference at Bretton Woods in the summer of 1944 attended by representatives of forty-four of the United Nations. This conference drew up the Articles of Agreement of the International Monetary Fund and the International Bank for Reconstruction and Development.

The International Monetary Fund is an association to deal with foreign exchange questions. Its purpose is to promote currency stability and orderly exchange arrangements among nations. To accomplish this purpose it lays down certain standards of behaviour which the members agree to observe and which help the members over rough spots in their international transactions by making foreign exchange available to them in specified amounts on an assured basis. As for the International Bank, its main objective is to make loans to aid in the reconstruction of war-devastated countries and the development of economically backward areas.

As I have indicated, the Fund is concerned in large part with establishing a code of behaviour in the field of international financial relations. It represents an attempt to avoid currency evils, such as competitive exchange depreciations, blocked accounts, clearing agreements and so on. We in Canada fortunately have had very little contact with most of these devices, except that our exporters have encountered them in selling in foreign markets. Because these practices restrict and divert trade, they will, if they become prevalent again, interfere with our exports and imports, and constitute a serious threat to our efforts to maintain high production and employment.

I do not propose to spend a great deal of time in outlining the specific provisions of the Fund Agreement. I will recall merely that each country agrees with the Fund on the initial par value of its currency and agrees to make no change in it except after consultation with the Fund, and certain changes only with its consent. This provision is designed to assure that there will be no changes in exchange rates resulting from temporary conditions which do not reflect a basic economic need for such change.

The second main obligation which members of the Fund assume is they agree that they will not seek, through currency methods, to bring about a bilateral balancing of accounts with each of their trade partners but will pay for current transactions in currency that may be exchanged for other currencies needed for trade. In this way all countries belonging to the Fund will be able to use the proceeds of their exports to each member of the Fund to pay for their imports from any other member.

This obligation, known technically as the "convertibility of currencies" or even more technically as the "multilateral convertibility of currencies",