

previously thought of as a minimum safety level and it was obvious that some steps had to be taken to arrest the haemorrhage.

This was the situation which led to the meeting of Commonwealth Finance Ministers in London last July. The Canadian representatives at this meeting naturally stressed the need for the sterling area countries to do everything possible to increase their dollar earnings so that the necessary balance in their dollar accounts could be struck at a high rather than at a low level of transactions. However, with reserves at a seriously low point, and with the dollar deficit running at a rate far higher than the amount of Marshall Plan assistance and other sources of finance in sight, the main re-occupation of the sterling area Ministers inevitably became the unhappy one of planning further cuts in dollar imports. This they did, but the drain on reserves continued and the sterling exchange rate was finally changed on September 18.

It will be clear of course that the devaluation of sterling and other currencies is not a cure-all. It does not solve the dollar problem. The devaluation of sterling does two things and only two things: it stops the speculative drain on British reserves, and it restores for the time being the competitive position of the sterling area in dollar markets. But goods must not only be priced right if they are to be sold in the Western Hemisphere - they must also be available. If the pressures on British production of home demand and demand from non-dollar countries remain as persistent as they have been in the past, then the devaluation of sterling will turn out to be a rapidly wasting asset, so far as any lasting contribution to the solution of the dollar problem is concerned.

I turn now to the world dollar problem as it affects Canada. You are all aware that in recent decades it has been normal for us in Canada to spend less than we have earned abroad and thus to have a surplus on our overall current account balance. During the War and after, we used this surplus in various ways in order to help our overseas allies and customers. After the War the need of the United Kingdom and Europe for Canadian goods and services continued to be very great, their earnings here were disappointingly small and at the same time Canadian imports rose sharply as a result of our own post-war prosperity. As things turned out, therefore, our surplus for lending shrank steadily while the rate of drawings on the credits we extended to the United Kingdom and other countries was high. Our position was that of a man who, to help friends in difficulties, lends them more than he is saving himself. His bank balance drops. So did our international bank balance in the form of gold and United Nations dollar reserves. Sooner or later a man or a country in this position has to do something.

You will recall the action taken by the Canadian Government in November 1947 and subsequently. Earn more - spend less - lend less - that was the programme. It is sufficient to say here that the programme arrested the decline in our "foreign exchange bank account" from a low point of about \$500 million and rebuilt it during 1948 to nearly \$1,000 million where it still stood at the end of last September.

The dollar problems of our overseas customers tend to be transferred to us because, if we are to derive any foreign exchange benefits from a surplus of exports to them, they must have money to pay us and the money must be of a kind we can use to settle our account with the United States. In other words, for all practical purposes, it must be United States dollars.