receive payment in foreign exchange. Of this $860 million, approximately $110 million represented goods that we gave away through UNRRA and Post-UNRRA relief, and the balance represented goods that were paid for out of credits extended by the Canadian Government. When you subtract $860 million of credit from our current account surplus of $460 million, it is obvious that our current account transactions alone would have resulted in a cash deficiency of $400 million in 1946 and one would have expected to see our reserves fall by that amount. However, our reserves fell by only $250 million in 1946 to a level of $1,250 million. The difference was accounted for by an inflow of capital representing in part further purchases of Canadian securities by Americans and in part a lump sum payment we received from the U.K. in settlement of certain outstanding war claims.

The general pattern of the picture in 1947 is as follows: we started the year with liquid reserves of $1,250 million, the favourable balance on current account largely disappeared as a result of a great expansion in our imports from the U.S. Notwithstanding the fact that we did not have a large favourable balance on current account, we permitted foreign countries to draw on their credits to the extent of approximately $570 million and make further relief grants of about $35 million. Since we paid cash for all our imports and failed to receive cash for some $600 million worth of our exports, our international cash reserves had to decline by this amount less our small current account surplus. In addition to the decline caused by our current transactions we also lost exchange in 1947 as a result of capital movements, the most important of these being our gold contribution of $75 million dollars to the International Monetary Fund and net capital payments in U.S. dollars, due largely to the redemption of Canadian securities held by American investors, to the amount of approximately $140 million. In consequence, our total loss of exchange to the end of November 1947 was approximately $770 Million, and our reserves at that time were only $480 million. This was the situation which impelled the Government to impose the import and travel restrictions and take the other measures announced in the latter part of November with which you are familiar.

I should like to pause here to raise the question of what went wrong. Some loss of reserves was, of course, anticipated when the Government extended the large credits in 1945 and 1946, but obviously it was not expected that the loss would be as severe as turned out to be the case. What are the factors responsible?

Certainly one of the main factors responsible was the extraordinary propensity to import that Canadians have demonstrated under conditions of high income. There had been no previous experience on which to base a judgment of this factor. The conditions which prevailed in 1946 and 1947 were unique in our history. Everyone was fully employed, money incomes were at very high levels. There was a large backlog of wartime savings in the hands of individuals and corporations which had, as its counterpart, a backlog of requirements in the form of durable consumers' goods and capital goods which it had not been possible to obtain in the course of the war. On the other side of the picture, the reconversion of industry proceeded very rapidly in the U.S. in 1946 and 1947 and the products of American industry became available in a most impressive (and I may add, from the narrow distorted point of view of an exchange controller, a most depressing) flow. Our imports from the U.S., which before the war had amounted to approximately $500 million a year, piled up to the large total of $1,400 million in 1946 and the extraordinary high figure of $2,000 million in 1947. Part of these imports consisted of luxury and non-essential goods, including various types of consumers' durable goods, such as automobiles and washing machines, but the bulk consisted of the raw materials for our industries and the materials and machinery and equipment needed in connection with the great expansion in real investment which has been taking place in Canada in the last couple of years. We should, therefore, by no means think of these imports as money thrown