

Nor can these reserves be increased to a satisfactory level simply by selling wholly for United States dollars those commodities which have in the past been paid for only partly in United States dollars. Since the end of the war we have extended to the European nations, in the form of loans, credits and grants, an amount which, relative to the size of our population, and our national income, is second to none. We must, however, have a surplus in our international balance of payments before we can consider the extension of any further financial aid to Western Europe.

"In order to secure such a surplus, we must, among other things, expand our exports, continue to do without many of our traditional imports from dollar countries, and secure more of our imports from countries in the sterling area."

Some indication of the actual significance of the Economic Co-operation Act for Canada's exports and dollar exchange position was given by the Right Honourable C.D. Howe, Minister of Trade and Commerce, in a speech at Montreal, May 11, 1948. He then said:

"The dominant feature of our payments picture in 1947 was that although we were a net exporter to the world as a whole, we, nevertheless, were forced to withdraw about three quarters of a billion United States dollars from our reserves. This is largely explained by the fact that, whereas we obtained nearly 80 percent of our merchandise imports from the United States, we sent only 40 per cent of our exports to that destination. On the other hand, to the United Kingdom and other European countries, whose dollar loans were nearing exhaustion, we exported about 40 per cent while importing less than 10 per cent. In view of the fact that European countries could supply only limited quantities of convertible currencies to cover their deficits, it is clear that our high level of exports was only possible as a result of the extension of credits and the consequent exhaustion of our dollar reserves. Now that we cannot fall back on such reserves and the United Kingdom and other European countries are still not in a position to transfer sufficient gold or dollars to our account to pay for all they need, the problem is to find a working arrangement that will make possible continued shipments of construction goods where they are most urgently required.

"I have seen some reports to the effect that E.R.P. would actually increase our exports by adding several hundred million dollars to the value of our current flow. This is far from the truth. What I have emphasized already about our trading and payments position should make it abundantly clear that last year's exports were supported by credits which we can no longer provide. Therefore, were it not for E.R.P. off-shore purchases our exports would have declined inevitably. Now we may hope - not that shipments will be greatly increased - but that they will be maintained at least at the level of 1947.

"Another and related misconception, which is all too prevalent throughout the country at the present time, is that E.R.P. will automatically solve our United States dollar problem. This is not the case. Let us look for a moment at the most relevant facts. Since the war, we have been able to cover our net deficit with the United States by drawings on our accumulated reserves and by transfers of U.S. dollars from the United Kingdom. Expenditures by the United States under the Economic Co-operation Act for goods and services from Canada will simply enable us to continue export shipments without having the indirect effect of further depleting our supplies of U.S. dollars. But it is not enough for us to stop the drain on our reserves. We must build them up since they are now abnormally low. Were we to relax our