

world. Canada's international accounts provide an excellent example of how the system of multilateral settlements operated. In the years before the War, Canada's balance of sterling income, which mainly originated from Canadian exports to the United Kingdom, was freely convertible into United States dollars, so that the Dominion was able to settle the deficit arising out of commercial and financial relations with the United States. Triangular settlements, such as those arising from Canada's trade with the United Kingdom and the United States, were a basic part of the framework of world trade and had the effect of broadening the sphere of trading between nations by going far beyond the limited scope of bilateral trade.

The War, however, has interrupted the operation of the system of multilateral settlements by creating conditions under which sterling is no longer freely convertible into United States dollars. In addition, the current accounts of the belligerent nations have become distorted by wartime demands which have produced greatly augmented current balances for which new methods of settlement have had to be devised. In the case of Canada, the new conditions have produced problems with respect to the balances of payments with both the Sterling Area and the Non-sterling Area.

With the Sterling Area, the problem has been one of finding means of financing the growing British shortage of Canadian dollars resulting from the extraordinary wartime needs of the United Kingdom for Canadian munitions, food and raw materials. These needs, of course, have increased to unprecedented proportions as the United Kingdom is a principal base of operations against the Axis. In the earlier years of the War, this shortage was principally met by the Canadian Government repatriating Canadian securities owned in the United Kingdom and by the accumulation of sterling balances by the Foreign Exchange Control Board. Some settlements have also been effected by purchases of gold from the United Kingdom which has, in turn, been sold in the United States to settle Canadian deficits there. In 1942, however, besides some additional repatriations, a new method of meeting the growing needs of the United Kingdom for Canadian dollars was introduced when a contribution of \$1,000 million was made to the Government of the United Kingdom for expenditure on war supplies in Canada. In the same year the major part of the accumulation of sterling balances by Canada was converted into a loan of \$700 million to the United Kingdom. In 1943, a further development in the methods of financing the wartime needs of the Allied Nations was the appropriation by the Canadian Parliament of \$1,000 million for Mutual Aid, for the production and transfer of Canadian war supplies to the United Nations. In 1944 there was a further appropriation of \$800 million for Mutual Aid (see p. 461). There were also special receipts of United States dollars from the United Kingdom in 1943. Increasing current payments by the Canadian Government to meet the overseas expenditures of the Canadian Forces have also provided a very substantial source of Canadian dollars for the United Kingdom. In short, the United Kingdom has been able to obtain such a large volume of commodities from Canada for the prosecution of the War only because of special receipts of Canadian dollars such as have been outlined above. The special sources of dollars which have made this possible are mostly outlays of the Dominion Government arising from the wartime financial organization of the Dominion in which government expenditures represent a large part of the national income. (See Finance Chapter.)

In the case of the balance of payments with the Non-sterling Area, the central problem has also been one of scarcity—in this case a Canadian shortage of United States dollars. The customary deficits in Canada's current account with the United