

Wartime Developments.—The War, however, interrupted the operation of the system of multilateral settlements by creating conditions under which sterling was no longer freely convertible into United States dollars. In addition, the current accounts of the belligerent nations became 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 produced problems with respect to the balances of payments with both the Sterling Area and the non-sterling area, and the situation made exchange control necessary.

During the wartime period, the external demand for Canadian production has been a dominant influence upon the balance of payments. British and other Allied requirements for munitions, food, raw materials and other goods and also for war services have been among the principal contributors to the great wartime development of productive capacity and of capital equipment in Canada. The rapid expansion of investment in new productive facilities created heavy demands for capital goods procurable only in the United States. The new kinds of industrial production also led to new demands for fuel, industrial materials and components which also had to be purchased in the United States. As a result of the new capacity and demands, the level of industrial production on overseas account rose to unprecedented heights.

In their external aspects, the financial problems accompanying this great achievement in production were twofold. There was the problem associated with the British scarcity of Canadian dollars to pay for the munitions, food and other commodities so urgently needed for the prosecution of the War and there was that arising from the Canadian shortage of United States dollars to pay for the capital equipment, materials and components required for the war production. These two tendencies contributed to the development of a greatly increased credit balance in the current account with the Sterling Area and an increased debit balance in the current account with the United States Dollar Area. Accompanying this great increase in disequilibrium was the interruption in the system of multilateral settlements already referred to. As a result of these developments, it was necessary to devise methods of overcoming these financial obstacles in order that they should not interfere with the Dominion's contribution to the War.

With the Sterling Area, the problem was 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. 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 were also effected by purchases of gold from the United Kingdom which, in turn, were sold in the United States to settle Canadian deficits there. In 1942, however, a new method of meeting the growing needs of the United Kingdom for Canadian dollars was introduced when a contribution of \$1,000,000,000 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 \$700,000,000 to the United Kingdom. A further development was the appropriation by the Canadian Government in 1943 of \$1,000,000,000 for Mutual Aid, for the production and transfer of Canadian war supplies to the United Nations and in 1944 of \$800,000,000. Capital debits arising from the repurchase by Canada of the British equity in the fixed capital