

of war plants, amounting to \$205,000,000 and the repayment of \$190,000,000 by Canada of British working capital advances made to Canadian munitions producers earlier in the War, provided a considerable amount of the additional funds required to finance the British current account deficiency in 1943. There were also special receipts of United States dollars from the United Kingdom, and increasing current payments by the Canadian Government to meet the overseas expenditures of the Canadian Forces provided a very substantial source of Canadian dollars for the United Kingdom. In short, the United Kingdom was 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 made this possible were 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.

In the case of the balance of payments with non-Empire countries, 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 States were greatly augmented by the War, principally because of the rapid rise in Canadian imports from the United States. At the same time, net credits from other foreign countries whose currencies are convertible into United States dollars have sharply contracted with the decline in exports to Continental Europe and Asia.

Since, during the war period, the deficits incurred with the United States dollar area had to be settled with United States dollars, it became necessary to conserve United States dollars for the more essential purposes of the War, and to develop new sources of United States dollars. Exchange control with the control of capital movements provided the principal means of conserving United States dollars. Government measures also limited expenditures on Canadian pleasure travel and non-essential commodities in non-Empire countries. As a result of the agreements entered into at Hyde Park in April, 1941, new sources of United States dollars were produced with the sale of ships and munitions on a large scale to the United States Government and further development of the production of raw materials in Canada. Settlements made by the United Kingdom in United States dollars, and in gold sold in the United States, were also a factor in meeting deficits in the United States. Another factor has been the growing volume of imports of capital arising, mainly, from the purchase of outstanding Canadian bonds by United States investors.

In the last two years of the War, a combination of temporary developments led to a marked change in the current account with the United States. Although current payments by Canada for merchandise and services reached a record level in 1943 and declined only moderately in 1944, there were very striking increases in current receipts from sales of munitions to the United States Government and from sales of grain to the United States which reached their peak in 1944, when they considerably exceeded the level of total exports of all commodities from Canada to the United States in 1938. Other exports to the United States were also heavier and more diversified than formerly, as unusual demands were created by wartime incomes and temporary shortages. Another unusual source of substantial income in the latter years of the War originated in United States Government expenditures on defence activities in Canada, such as the construction of the Alaska highway and airfields, and the Canol project and other activities in northern Canada.