

prosecution of the War. Other exchange and financial problems arose from the Canadian shortage of United States dollars to pay for the capital equipment, materials and components required for war production.

The nature of the problems introduced by the War necessitated the division of the Canadian balance of payments into two separate sections, one showing transactions with the Sterling Area, and the other showing transactions with the United States and other countries with convertibility exchange. Because of the absence of the free convertibility of sterling into United States dollars the disequilibrium in these two separate accounts between Canada and other countries has had to be met by various special means. The principal solutions of the wide disequilibrium in the account with the United Kingdom and the Sterling Area have been of a financial character. Arrangements were made between the two Governments for increasing the supply of Canadian dollars available to the Sterling Area and the direction of these into official channels. In the early years of the War, these methods were mainly of a capital type, involving repatriations and the accumulation of sterling, whereas later in the War when the disequilibrium widened to its peak the Billion Dollar Contribution and Mutual Aid to the United Kingdom were the chief methods of financing the British shortage of Canadian dollars. Mutual Aid expenditures on account of the Sterling Area countries to the end of 1945 amounted to approximately \$2,175,000,000. Following the end of Mutual Aid the loan of \$1,250,000,000 by the Canadian Government to the United Kingdom has been the principal means of financing the current deficit of the Sterling Area in Canada.

In the balance of payments with the United States and the United States dollar area, the initial adjustments to meet the Canadian shortage of dollars were of an administrative character. The introduction of exchange control and the control of exports of capital from Canada provided a means of conserving Canada's limited supply of United States dollars for the more essential purposes of the War. Similarly, Government restrictions were introduced in 1940 limiting Canadian expenditures in the United States for unessential travel and civilian luxury commodities. As the disequilibrium widened in Canada's current account with the United States, other measures directed towards expanding Canada's receipts of United States dollars were developed. The agreements entered into at Hyde Park in the spring of 1941 led to large United States purchases of munitions, military equipment, ships and raw materials in Canada. These expenditures developed rapidly after the United States entry into the War. Later during the War, there were exceptionally large Canadian current receipts from sales of grain to the United States and United States Government expenditures on defence in Canada. Another major source of United States cash arose from capital inflows from the United States to Canada. Throughout the War, there continued to be an appreciable liquidation of Canadian holdings of United States securities and, in 1942, there first appeared large inflows of capital for the purchase by United States investors of Canadian securities, particularly bonds and debentures. These capital inflows continued to be unusually heavy throughout the remainder of the War and contributed large amounts to the supply of United States exchange, although Canada's external foreign liabilities increased commensurably. There were also special receipts of gold and United States dollars in partial settlement of the British deficiency in Canada. By the end of 1945, Canada's official liquid reserves of gold and United States dollars amounted to \$1,508,000,000.