Section 5.—Foreign Exchange.

The Canadian dollar, adopted as our currency in 1857, was equivalent to 15/73 of the pound sterling; in other words, the pound was equal to $4.866 in Canadian currency at par, and remained so, with minor variations between the import and export gold points representing the cost of shipping gold in either direction, until the outbreak of the Great War. Further, during the first eleven years after Confederation, the Canadian dollar was often at a premium in the United States, as the United States dollar was not, after the Civil War, redeemable in gold until 1878. From the latter date, the dollar in the two countries was equivalent at par, and the variation was only between the import and export gold points or under $2 per $1,000.

At the outbreak of the Great War, both the pound sterling and the Canadian dollar were made inconvertible into gold and fell to a discount in New York, though this discount was "pegged" or kept at a moderate percentage by sales of United States securities previously held in Great Britain, borrowing in the United States, and, after the United States entered the War, by arrangements with the United States Government. After the War, the exchanges were unpegged about November, 1920, and the British pound went as low as $3.18 and the Canadian dollar as low as 82 cents in New York. In the course of the next year or two, exchange was brought practically back to par, and Great Britain resumed gold payment in 1925 and Canada on July 1, 1926. From then until 1928, the exchanges were within the gold points, but in 1929 the Canadian dollar again fell to a moderate discount in New York.

Recent Movements in Canadian Exchange.[1]—Because Canada has no foreign exchange mechanism of her own, Canadian transactions in exchange and monetary gold have been governed by New York and London. Great Britain buys much more from Canada than Canada buys from her, but the reverse is the case as regards the trade between Canada and the United States. The result is that there is a supply of bills on London in excess of the amount needed to meet current obligations in Great Britain. By offering these for sale for United States funds in London or New York, a triangular balance is approximated by book transactions and without the cross transfers of the larger quantities of gold which would otherwise be necessary. The volume of sterling exchange on Canadian account thus passed to the New York market does not greatly influence New York rates of sterling exchange under normal conditions; on the contrary, the volume of the New York-London transactions is sufficient to carry the Canadian rates along with them. Canadian exchange transactions with other countries are handled through London or New York and are unimportant of themselves, depending on the relationships with Canadian-New York and Canadian-London transactions.

In September, 1931, the equilibrium of international exchange was seriously disturbed. This unfortunate turn of events followed a period of over six years during which the nations of the world had worked steadily towards the stabilization of their currency systems upon a gold basis. Within two months of the time when Great Britain found it necessary to suspend free gold shipments, however, only a very small number of countries, including the United States and France, were left with currencies unshaken by preceding abnormal gold movements. The decision of Great Britain to go off the gold standard (Sept. 21, 1931) resulted in a sharp depreciation of sterling in New York, and partly owing to the triangular nature

[1]Revised by Herbert Marshall, B.A., F.S.S., Chief, Internal Trade Branch, Dominion Bureau of Statistics.