Section 4.—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. During the first eleven years after Confederation, the Canadian dollar was 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 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 the United Kingdom, borrowing in the United States, and, after the United States entered the War, by arrangements with the United States Government. After the War, when the exchanges were "unpegged" about November, 1920, 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 the United Kingdom resumed gold payments 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. The dislocation of exchange resulting from this discount persisted, with the exception of a few months in the latter half of 1930, into 1931. Dollar rates were below the gold export points, however, only for a few scattered intervals. Fluctuations since September, 1931, are dealt with below.

Recent Movements in Canadian Exchange.*—Because of Canada's close financial and commercial relationships with the United Kingdom and the United States, Canadian exchange rates are influenced to a large extent by the London and New York markets. The United Kingdom 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 the United Kingdom. By offering these for sale for United States funds in London or New York, a triangular balance is approximated by book transactions and the amount of gold transfers is thereby greatly reduced. 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.

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 the United Kingdom 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 the United Kingdom to go off the gold standard (Sept. 21, 1931) resulted in a sharp depreciation of sterling in New York. Canadian rates depreciated also,

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