

day. The Government took this step resolutely but reluctantly, because the commercial and financial ties between Canada and other countries, particularly the United States, are very close indeed and there has always been the greatest freedom of financial intercourse between Canada and the outside world. The supreme necessity of conserving Canada's capital and receipts of foreign exchange for war purposes made control essential. The Board has power to license imports and exports of goods, currency, and capital (as for example in the form of securities). All transactions with residents of other countries are subject to its regulations. It has in general adopted the policy of interfering as little as possible with normal business and travel, but of keeping outward movements of capital to the reasonable minimum made necessary by various considerations. Ordinary small transactions have usually been exempted from regulation and particular care is taken to see that tourists coming to Canada are not restricted in any way. Early in July, the Board, with the approval of the Government, ceased selling foreign exchange to Canadian residents for the purpose of pleasure travel, in order to conserve exchange for the purchase of essential war supplies.

On Apr. 30 a Foreign Exchange Acquisition Order was passed requiring all Canadian residents to sell their holdings of foreign exchange (but not of foreign securities) to the Foreign Exchange Control Board before the end of May. The Board permitted those who needed a current supply of foreign exchange in carrying on their normal business to retain enough for this purpose. At the same time the Bank of Canada also sold its gold reserves to the Board in order that all the nation's liquid reserves, both of gold and exchange, might be centralized in the hands of the agency responsible for managing the exchanges. The Exchange Fund, established in 1935 and used by the Board in its operations, was enlarged by \$325,000,000 in order to enable the Board to purchase the gold and foreign exchange referred to above.

### Economic Review, 1939-40.\*

The industrial outlook in Canada for the current year is and will be, to an increasing extent, associated with the character of war demands. There are also prospects of business from export fields by reason of the interference of war conditions with the ordinary trade channels and the fact that Canada occupies a preferred geographical and economic position in its ability to supply Empire needs under existing conditions.

At the outbreak of the present war, Canada faced the future with a near-record harvest, industry operating considerably below capacity, vast reserves of electric power and raw materials, over 750,000 persons on relief (a labour reservoir and potential recruiting force), banking assets at record levels, and a plentiful supply of capital available for investment.

The marked expansion in business operations during the first eight months of the present war is only a preview of future activity. Apart from the tax on Canadian production that the exigencies of war would in any case bring about, the German occupation of most of Europe and the strangulation of the normal sources of Allied supplies, especially food-stuffs, on that Continent have made it imperative that Canadian output be increased immediately to make up the deficiency.

A comprehensive index of industrial production from Sept. 1, 1939, to the end of April, 1940, showed an average gain of 17 p.c. over the corresponding period of the previous year. Practically all representative factors had places in the general advance and the initial changes in the turnover to a war economy were effected without undue dislocation. Strong governmental action served to allay fears of short-

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