

the volume and character of the various counter movements. Often, although the net movement of capital during a period may be relatively small, the significant effects that the gross movements have upon the composition of the foreign assets and liabilities of Canada may be considerable.

The Dominion Bureau of Statistics has recently completed a comprehensive study of the Canadian balance of international payments from 1926 to date and, consequently, it is now possible to draw up for this period revised statements of the balance of payments that incorporate new information that has become available.* Of special interest is the detailed analysis of capital movements between Canada and other countries that has been revealed in the capital account.

Gold Held under Earmark by the Bank of Canada.—Since February, 1936, the Bank of Canada has been holding gold under earmark for clients abroad. These holdings presumably may be of either domestic or foreign origin. The physical movement of gold into or out of Canada is recorded in the trade tables as explained on pp. 499-501. Changes in the gold held under earmark involve international financial transactions which are considered in estimating Canada's balance of international payments (see Table 25). A table on p. 563 of the 1939 Year Book gives this information by months, for the years 1937 and 1938. Since the outbreak of war in September, 1939, the Bank of Canada has not released information regarding the holdings of gold under earmark.

Subsection 1.—The Geographical Distribution of Transactions in the Canadian Balance of International Payments.

There are important counter movements within the Canadian balance of payments that are disclosed by an analysis of the geographical distribution of transactions. While this distribution of transactions is based upon less well-defined data than the totals for all countries, the analysis shown in Table 23 does reveal the main outlines of the commercial and financial relations between Canada and the United Kingdom, the United States, and other countries. It throws light upon the external sources of demand for Canadian goods and services and the origin outside of Canada of foreign goods and services purchased or received by Canadians. It also shows the direct source and destination of movements of capital although the beneficial ownership or ultimate destination of capital may not always be disclosed. Statistics of the balance of payments by countries, it should be noted, do not reveal the currencies in which transactions are executed. In general they represent the country of residence of the participants (of transactions) rather than currencies.

With few exceptions, the broad outlines of the transactions with each country have been consistent in the five years from 1934 to 1938. In each year there have been large balances of credits in the current accounts with the United Kingdom and with other overseas countries, while there were debit balances of varying importance in the current account with the United States, with the one exception of 1935, when debits and credits in current account dealings with the United States practically balanced. The predominant direction of the capital movements between Canada and each country was also generally consistent. The most pronounced movement was the large net outward movement of capital to the United States in each year varying from \$226,200,000 in 1936 to \$100,400,000 in 1938. There were also movements of capital on balance to the United Kingdom in four of the five years, although of more moderate proportions. The exceptional year was 1934 when

* "The Canadian Balance of International Payments—A Study of Methods and Results"; also annual reports on the Canadian Balance of International Payments; published by and obtainable from the Dominion Bureau of Statistics.