

PART III.—SUMMARY OF EXTERNAL TRANSACTIONS

Section 1.—Canadian Balance of International Payments*

When the statements of Canadian international balance of payments for the pre-war years are contrasted with the three war-time years, the comparison shows that the war-time developments have, in many respects, been an accentuation of a single pattern. But underlying the similarity in structure there have been outstanding differences in the mechanism of making international settlements which have been at the core of the financial problems arising out of developments in international payments during the War.

Before the War, particularly in the trade between the British Commonwealth of Nations and the United States, free exchange markets were the characteristic channel of international settlements between the principal trading nations of the world. Canada's international accounts provide an excellent example of how the system of multilateral settlements operated. In the years before the War Canada's balance of sterling income, which mainly originated from Canadian exports to the United Kingdom, was freely convertible into United States dollars, so that the Dominion was able to settle the deficit arising out of commercial and financial relations with the United States. Triangular settlements such as those arising from Canada's trade with the United Kingdom and the United States were a basic part of the framework of world trade and had the effect of broadening the sphere of trading between nations by going far beyond the limited scope of bilateral trade.

The War, however, has interrupted the operation of the system of multilateral settlements by creating conditions under which sterling is no longer freely convertible into United States dollars. In addition, the current accounts of the belligerent nations have become distorted by war-time demands which have produced greatly augmented current balances for which new methods of settlement have had to be devised. In the case of Canada the new conditions have produced problems with respect to the balances of payments with both the Sterling Area and the Non-sterling Area.

With the Sterling Area, the problem has been one of finding means of financing the growing British shortage of Canadian dollars as the needs of the United Kingdom for Canadian munitions, food and raw materials increased to unprecedented proportions. (See Finance Chapter.)

In the case of the balance of payments with Non-sterling Area, the central problem has also been one of scarcity—in this case a Canadian shortage of United States dollars. The customary deficits in Canada's current account with the United States has been greatly augmented by the War, principally because of the rapid rise in Canadian imports from the United States. At the same time, net credits from other foreign countries whose currencies are convertible into United States dollars have sharply contracted with the decline in exports to Continental Europe and Asia. It has therefore been necessary to conserve United States dollars for the more essential purposes of the War, and to develop new sources of United States dollars. Exchange control (with the control of capital movements) has provided the principal means of conserving United States dollars. Government measures have also limited expenditures on Canadian pleasure travel and non-essential commodities in non-Empire countries. As a result of the Agreements entered into at Hyde Park in April, 1941, new sources of United States dollars

* Summarized from the Report "Canadian Balance of International Payments, 1937-42" prepared by C. D. Blyth, B.A., Chief, International Payments Branch, Dominion Bureau of Statistics.