

extent upon expanding gold production. The more significant annual variations in the gross volume of current international transactions and in the current account balances arise usually from fluctuations in merchandise trade. Demand for Canadian exports varies widely from year to year, and Canadian demand for imports is closely related to fluctuations in the national income in Canada. The large element of interest charges in the total payments on account of interest and dividends makes for some rigidity in payments on income account, and possible fluctuations in the net balance from the tourist trade are moderated considerably by the substantial volume of Canadian travel expenditures outside of Canada, which usually fluctuate in the same direction as travel expenditures in Canada.

The geographical distribution of transactions has displayed very pronounced characteristics and has shown a concentration of dealings with the United Kingdom and the United States with credit balances on current account characterizing the balance of payments between Canada and the United Kingdom for a number of years preceding the War, and chronic debit balances being customary in the account with the United States. The main sources of the credit balance with the United Kingdom was the large income which Canada has had from exports of merchandise to the United Kingdom. In the years immediately before the War, this was customarily much greater than the total of current payments made by Canada to the United Kingdom for merchandise imports, shipping and other commercial and financing services and payments of interest and dividends on Canadian investments owned in the United Kingdom. This sterling income was, however, freely convertible before the War into United States dollars or other currencies for which Canadian demand exceeded the Canadian supply. Because of this existence of free exchange markets, there was no problem of settling the credit balance with the United Kingdom such as has developed during the War. The Canadian need for external income to meet payments in the United States and certain other countries where Canada usually has debit balances arises chiefly from the excess of purchases of merchandise in the United States over Canadian exports to that country combined with the large Canadian payments of interest and dividends to United States investors, and the payments for transportation, travel and other services. While there is, in good years, a substantial income from Canadian exports to the United States and from United States tourist expenditures in Canada, this, along with sales of newly mined gold, was not sufficient in any year before the War to meet the large payments for goods and services purchased in the United States.

Canada's special interest in a system of multilateral settlements is apparent from the structure of the Canadian balance of payments. For example, the existence of free exchange markets before the War provided a channel of international settlement, particularly between the nations of the British Commonwealth and the United States. It was, therefore, possible for there to be a considerable amount of disequilibrium or "unbalance" in Canada's current accounts with the United Kingdom and the United States without any special problems of settling these balances arising. Triangular settlements such as those arising from the unbalanced state of Canada's accounts with the United Kingdom and the United States were an integral part of the network of international commerce which had grown up over a long period. The system of multilateral settlements made it possible to settle balances like those arising from Canada's dealings with its principal trading partners.